ELDERLY HOUSING OPTIONS: A BLUEPRINT FOR THE FUTURE

JOINT HEARING

BEFORE THE

SELECT COMMITTEE ON AGING

AND THE

SUBCOMMITTEE ON HOUSING AND CONSUMER INTERESTS

OF THE

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HOUSE OF REPRESENTATIVES

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ELDERLY HOUSING OPTIONS: A BLUEPRINT FOR THE FUTURE

TUESDAY, FEBRUARY 25, 1986

House of Representatives,
Select Committee on Aging,
and the Subcommittee on Housing
and Consumer Interests,
Washington, DC.

The Select Committee on Aging and the Subcommittee on Housing and Consumer Interests met jointly, pursuant to call, at 1:10 p.m., in room 345, Cannon House Office Building, Hon. Edward R. Roybal (chairman of the committee) and Hon. Don Bonker (chairman of the subcommittee) presiding.

Members present: Representatives Roybal, Bonker, Lightfoot, Smith, Volkmer, and Hammerschmidt.

Staff present: Fernando Torres-Gil, staff director; Judith Lee, executive assistant; Brian Lutz, professional staff member; Diana Jones, staff assistant, of the Select Committee on Aging; Michael Rodgers, majority staff director; Gretchen Sorensen, majority research assistant; Susan Able, majority staff assistant; Patricia Lawrence, minority staff director; Janet Porush, minority staff assistant, of the Subcommittee on Housing and Consumer Interests.

OPENING STATEMENT OF CHAIRMAN EDWARD R. ROYBAL

Mr. Roybal. The committee will come to order.

The purpose of today's hearing is to examine how we can better meet the housing- and service-related needs of our growing aging population. This examination is particularly important given the President's proposal to end the Federal commitment to develop any new elderly housing units.

Our Nation is experiencing a rapid increase in the numbers of its oldest citizens. Over the next 30 years, the proportion of the population aged 85 and over will triple, and by the year 2050 it will increase sevenfold from what it is today.

If we are to avoid a crisis in which there are no suitable living arrangements to assist the rapidly growing numbers of frail older Americans, we must begin to plan now. This will require a strong commitment at all levels of government, as well as the coordinated efforts of those in the public, private, and voluntary sectors.

Yet, I am confident that we can meet this important challenge. There are presently many successful housing programs and models already in existence which could be duplicated in other communities and neighborhoods.

We simply need to demonstrate, first of all, the will and then the continued Federal commitment to help develop these options further.

Today we are fortunate to have with us several experts as witnesses who can provide the committee with an overview of housing programs and partnerships which are developing at the State and local level, and also in the private and voluntary sectors.

I am hopeful that these programs could well serve as models for how we might better address the housing needs of our older population. I look forward to the expert testimony that we are about to receive today.

The Chair now recognizes Mr. Lightfoot.

STATEMENT OF REPRESENTATIVE JIM LIGHTFOOT

Mr. LIGHTFOOT. Thank you, Mr. Chairman.

I too am glad to see that the full Aging Committee and the Subcommittee on Housing and Consumer Interests are holding this hearing today to examine the housing options for older Americans. As the elderly population increases, especially the number of people over the age of 80, it is important that we examine ways to house this population.

The needs of this group are diverse. They require a variety of housing alternatives. What works for a 62-year-old person will not necessarily work for an 85-year-old person.

The Federal Government also needs to work with States and local communities on developing housing alternatives for the elderly. My own State of Iowa is taking an active role on this issue. As a State that ranks fourth out of the Nation for the number of senior citizens and No. 1 for those people over the age of 85, Iowa has no other alternative than to reexamine the housing policies for senior citizens.

Last year the Iowa Commission on Aging and a nonprofit corporation from my district, with our help, received a grant from the Administration on Aging to conduct a statewide housing survey and to construct a model ECHO house. ECHO, which stands for Elder Cottage Housing Opportunity, refers to a small free-standing barrier-free, energy efficient, and removable housing unit and is placed adjacent to existing single family homes.

This concept, which originated in Australia, allows an older person to maintain his independence and privacy, while also insuring that he or she receives adequate care.

However, the principal roadblock to the further development of ECHO housing is zoning ordinances, which prohibit the placement of these temporary structures next to permanent structures. States and localities need to consider changing these zoning ordinances to allow these structures.

In Iowa, legislation is currently being considered for the State legislature to permit these units. ECHO housing is a concept which warrants further review by the Federal Government and the States. ECHO housing allows an elderly individual to maintain his independence, and in many cases, keep a senior citizen from being institutionalized. It also allows for the interaction and support of the family and friends, and of course, the cost advantages can be considerable.

I urge the Subcommittee on Housing and Consumer Interests to further examine ECHO housing and other housing concepts which allow our Nation's older Americans to live comfortably and economically.

Mr. Chairman, I join you in looking forward to the testimony this morning.

Mr. ROYBAL. Thank you, Congressman Lightfoot.

Mr. Smith.

Mr. SMITH. Thank you, Mr. Chairman.

Mr. Chairman, I ask that my full statement be included in the record.

Mr. ROYBAL. Without objection, it is so ordered.

Mr. SMITH. I would just briefly point out to the committee that I concur with the chairman's statement that there are a growing number of senior citizens that are in need of housing. We had a hearing on this very subject in my district last year and some of the testimony provided to the committee about housing for the elderly and its availability in New Jersey was very, very discouraging.

I am glad to see Bishop Hannan here from New Orleans Diocese. From his testimony and his experience I see that his diocese became involved in providing housing for seniors back in 1967. The diocese in Trenton also recently got into the housing area and was very successful in winning HUD support for 100 units of housing for the city of Trenton. I congratulate you on your leadership in the past, and I am glad to say that some of the other dioceses are following your lead.

Mr. Chairman, I yield back my time.

Mr. ROYBAL. Thank you, Mr. Smith.

I have the prepared statements of Representatives Tommy F. Robinson, Thomas J. Manton, Christopher H. Smith, and Bill Schuette, and if there are no objections I would like to submit the prepared statements for the record at this time. Hearing no objections, so ordered.

[The prepared statements of Representatives Robinson, Manton, Smith, and Schuette follow:]

STATEMENT OF REPRESENTATIVE TOMMY F. ROBINSON

Mr. Chairman, I am pleased that you and Mr. Bonker called this hearing. The subject that we will address today is of critical importance, not only to the growing population of elderly citizens, but to policymakers at the national, state and local levels.

The spectre of Gramm-Rudman coupled with the present Administration's willingness to eliminate entire housing programs with the stroke of a pen, make the task of insuring the availability of adequate, affordable housing to all elder Americans a difficult challenge. To meet this challenge we must explore all resources, both private and public. We must utilize and coordinate the multitude of social service agencies, religious organizations and advocacy groups that are interested and active in this issue.

All too often, there are only two choices available to the elderly: continue to live alone or enter a nursing home. For the many elderly citizens who fall into neither category, finding affordable housing with the appropriate level of care is a difficult proposition. To provide housing alternatives, community and neighborhood involvement is crucial. By utilizing the nursing home only when necessary, the state and federal governments could save thinly-stretched health care dollars.

The federal government, while only a partner in this effort, must play a guiding role. We cannot allow the Administration's budget to go unchallenged and we must do our best to maintain and improve the programs for elderly housing that have served us well. In this time of budget slashing, we cannot afford to ignore the housing needs of this nation's elderly.

STATEMENT OF REPRESENTATIVE THOMAS J. MANTON

Thank you Mr. Chairman. Today's hearing focuses on one of the most important issues facing older Americans today. I would like to commend the chairman of the Aging Committee, Mr. Roybal, and the chairman of the Subcommittee on Housing and Consumer Interests, Mr. Bonker, for calling today's hearing to examine the housing options for America's senior citizens. In addition to my assignment to the Select Committee on Aging, I also serve on the Housing Subcommittee of the House Banking and Urban Affairs Committee. Last June, the chairman of the Housing Subcommittee, Mr. Gonzalez, joined me at a field hearing in my congressional district in New York which focused on the housing needs of the elderly.

The lack of adequate housing for the elderly is a serious problem. Although 40 percent of all federally assisted housing units are occupied by the elderly, an increasing number of elderly Americans cannot find affordable housing. It is unlikely that the need for housing for the elderly will decrease in the foreseeable future, given the fact that the proportion of people aged 65 and over will continue to grow. In 1982, 11.6 percent of the entire U.S. population was over the age of 65. It is estimated that in 15 years, the elderly will comprise 13 percent of the total U.S. population, and by the year 2050 one out of every five Americans will be over age 65. Furthermore, the median income of the elderly remains substantially below that of most Americans.

Another factor that will exacerbate the need for additional elderly housing is the age of most units occupied by the elderly. The latest statistics show that in 1980, roughly 7 million, or 80 percent, of the housing units occupied by the elderly were built before 1939. Almost five hundred thousand elderly housing units lacked some or all plumbing.

In the face of this growing need, the administration's fiscal year 1987 budget does not propose any commitments for new housing construction or rehabilitation. The administration budget also eliminates assisted housing modernization funds for the next two years. The section 202 program is the Government's primary tool for helping to house the elderly. Under the program, nonprofit sponsors receive financing for the construction or substantial rehabilitation of housing designed for the elderly. The section 202 program is a very successful program. In fact, during the 1984 campaign, President Reagan visited a 202 housing project in New York State and applauded the program's success. While campaigning he voiced strong support for section 202. Now that he has been re-elected, the President has changed his mind. In fact, the President's budget for FY 1987 includes a proposal to eliminate this important program.

I have constantly fought this administration's attempts to reduce or eliminate Federal funds for senior citizen housing. Last year I worked hard with the chairman of the House Banking Committee to restore much needed funds for these programs. In addition, I am working closely with the Department of Housing and Urban Development to secure funding for additional senior citizen housing units in the 9th Congressional District of New York.

Mr. Chairman, a strong Federal commitment, in partnership with private sector and voluntary organizations, is needed to fully explore and develop options to meet the housing needs of a growing population of senior citizens. Today's hearing provides an important opportunity to examine successful programs and explore options for the future. I look forward to hearing the witnesses' testimony and will share the record of today's hearing with my collegues on the Housing Subcommittee.

STATEMENT OF REPRESENTATIVE CHRISTOPHER H. SMITH

Mr. Chairman, in the early 1930's President Franklin Roosevelt recognized that America faced a grave crisis in history. At least one-third of the American population was ill-housed. As a result, in the midst of widespread unemployment and financial collapse, Congress passed the Emergency Relief and Construction Act in 1932 to create the Reconstruction Finance Corporation.

The Corporation, the government's first major involvement in the housing field, was authorized to make loans to private entities providing housing to low income families. That same year, the Federal Home Loan Bank Board was established to make advances on the security of home mortgages and establish the Home Loan Bank System.

Since 1932, the federal government has continued to expand its role in ensuring adequate and affordable housing for Americans. The National Housing Act was passed in 1934 and with it came the creation of the Federal Housing Administration (FHA). In 1937, the U.S. Housing Act gained approval, establishing the Public Housing Authority, and 1965 saw the creation of the Department of Housing and Urban Development.

The first program to be targeted specifically at the needs of the elderly, however, is the Section 202 program. Section 202 of the Housing Act of 1959 authorizes direct low-interest loans to provide housing for the elderly. Coupled with the Section 8 program, leased housing assistance, Section 202 is considered by many to be extremely beneficial and successful. As of December 31, 1984, there were roughly 2,250 Section 202 projects nation-wide with 142,120 occupied housing units. With our aged population being one of the most dynamic sectors of our society as regards growth, it is particularly important for Congress to continue to provide adequate funding for construction under Section 202.

Mr. Chairman, the elderly need more than just a roof over their heads, however, and the Congregate Housing Services pilot programs have been enormously successful at providing supportive services for those seniors who are frail or disabled and who live in Section 202 or public housing projects. Although still only a pilot program, congregate housing provides meals and minimal social services, i.e. housekeeping and personal care assistance, in order to maintain independence, dignity, and overall good health for the older person. It may well be time to incorporate this program as a permanent part of U.S. assistance to the elderly.

Mr. Chairman, it seems clear to me that we are on the threshold of a crisis regarding housing for the elderly. The need for additional units of housing for older Americans is skyrocketing. At projected levels, according to the Census Bureau, the number of Americans age 65 and over will reach 35 million by the end of the century. We know that our elderly have contributed incalculably to the success of this nation. We must not shirk our responsibility to ensure they are able to obtain adequate and affordable housing.

I look forward to the hearing today. I trust the testimony given by our distinguished panel of witnesses will shed light not only on the problem we are now facing but on possible solutions as well.

STATEMENT OF REPRESENTATIVE BILL SCHUETTE

Mr. Chairman, fellow committee members, honored witnesses and guests, it is a pleasure to participate in this hearing this morning to discuss federal assisted housing programs.

In the 10th Congressional District of Michigan, I know how important the Federal commitment to elderly housing has been over recent years. Many low-income and handicapped elderly in mid-Michigan benefit from the section 202 and section 8 housing assistance offered by HUD. In addition, HUD provides low income and subsidized housing; a majority of the beneficiaries are elderly.

It has been noted that the number of our nation's frail elderly, those over age 85, will triple by over the next thirty years. It is crucial that we provide adequate housing for these seniors, outside institutions. Many seniors do not require institutionalization, but merely need affordable housing and services. However, because of the lack of independent housing settings, families, spouses and guardians are often left with no other alternative but placing the frail elderly into institutions. I cannot stress how devastating this can be to an individual who may only be functionally limited or lonely, and does not need intensive health care or supervision of an institution.

Through our commitment to housing for the elderly, we will encourage independence, self-esteem and stability for millions of Americans.

We will be discussing the President's budget today. No new construction or rehabilitation funds have been requested for elderly housing. I can only hope that this hearing will provide insight for all members of the Aging Committee so that we may clearly assess the President's proposed budget and its effect on housing for the elderly.

Mr. ROBAL. The first panel is made up of Archbishop Phillip Hannan, Mr. Ed Quinn, and Mr. Sheldon Goldberg. I would like to request that the witnesses present their full testimony to the House and that you summarize your testimony, if it is possible to do so.

I would like to begin first of all by welcoming Archbishop Phillip Hannan from New Orleans. Archbishop Hannan has been the head of the New Orleans Diocese since 1965. He has been there almost as long as I have been in the Congress of the United States, and he is a member of the U.S. Conference of Catholic Bishops.

His archdiocese is the third largest provider of housing for the elderly among all the Catholic Dioceses, and is the largest nonprofit provider of elderly housing in the State of Louisiana.

Archibishop Hannan, it is indeed a pleasure to welcome you. Please proceed in any manner that you may desire.

STATEMENT OF ARCHBISHOP PHILIP M. HANNAN, ARCHBISHOP OF NEW ORLEANS

Archbishop **Hannan**. Well, thank you very much, Mr. Congressman, and I have prepared my testimony, which has been submitted to your committee. I would like to give a summary of it, and I hope it won't take too long.

Mr. **Roybal**. Thank you. The full testimony will appear in the record at this point, and please do proceed and summarize.

Archbishop **Hannan**. Thank you.

The Archdiocese of New Orleans organized its Commission on Housing and Community Life back in 1967. From our modest beginning in 1967, in cooperation with HUD, our continuing efforts have led us to the point where today we now have built more than 2,800 units of housing for the elderly in 15 different locations.

We have also constructed 283 units of turnkey housing for the elderly and families and we have acquired 200 units from HUD property disposition, at the request of the Housing Authority of New Orleans.

We also have built four nursing homes with 725 beds. Thus we presently operate more than 3,300 units of housing for families and the elderly, and the preceding figures clearly indicate that our major emphasis and greater expertise lie in the development and management of housing for senior citizens.

It is important to note, though, that through our Catholic charities agencies and our social apostolate programs, we are able to provide a wide variety of supportive services. All of our facilities are managed by skilled, religious, and lay staff under the supervision of Christopher Homes, Inc., a corporation that we set up for this purpose.

For the elderly, services include full security, 24-hour-a-day monitoring, recreation and craft, field trips, shopping, transportation, and a full schedule of social events. It is important to note, too, that our efforts have led to the stabilization of neighborhoods, as well as to the preservation of existing structures.

In addition, funds expended for the erection of these facilities have helped to stimulate a sagging economy and provided jobs and business for the construction industry. Service companies which provide material, equipment and supplies have seen additional markets opened to them.

The church is driven by its commitment, as is the Government, to decent, safe, sanitary housing as a basic human right. We share this commitment with the Government of this great country of ours. We, that is, the Government and church, struggle together to meet the housing needs of the elderly.

While significant progress has been made toward this proper end, we still have much work to do. Our spirit, commitment, and joint effort will allow us to make even more progress in providing that decent home that each individual needs for leading a truly human life.

We have been good partners, we think, with Government, through the sections 8 and 202 programs, and we wish to continue this vitally important effort. The partnership is working, but we are all well aware that the church alone cannot solve the housing problems throughout the country.

In addition to our own archdiocese, many other Catholic dioceses across the country have undertaken major developments aimed at providing housing for the elderly. Acting primarily through its Catholic charities, but not exclusively, the Archdiocese of Boston, Chicago, Miami, New York, San Francisco and Washington, DC, as well as smaller primarily rural dioceses have worked to provide housing for the elderly.

Other groups have done the same; for instance, the Presbyterians have a large home for the elderly in our area. While I cannot speak for the other faiths, I can provide information about Catholic Charities U.S.A., formerly the National Conference of Catholic Charities. Catholic charities agencies across the country expend over $700 million per year to provide social services of all kinds to all age groups.

Two such programs are homemaker services and home health care to the elderly in their homes. Needless to say, this helps the elderly to stay in their homes longer and thus enables them to continue to be independent.

All of us who serve the aging population know that this is of paramount importance. I remember my dear mother. She insisted on staying at home no matter what.

Catholic-sponsored housing for low income elderly has also been reliant upon the section 8 rent subsidy program. The elderly poor make great use of this program. Without section 8 assistance, the elderly are not able to compete for adequate housing.

The proposed budget for 1987 calls for a freeze on the fair market rent from which HUD subsidies are based. This would certainly raise the cost of revenue to above the current legal limit of 30 percent from each person living in those homes. Low income elderly will not be able to meet future increases from their own limited financial resources.

Catholic Charities U.S.A. requests serious consideration of the wisdom of the proposed freeze of fair market rent. Implementation of this policy could have a disastrous effect on section 202 building.

Catholic Charities U.S.A. has gathered information about the need for housing that lies between independent living and nursing home care. This is a vital need. This type of facility is known by various names in different parts of the country. They are called elderly group homes, congregate care, personal care, or domiciliary care.

In such facilities, no medical care is administered. One or more meals per day are served and personal assistance is given to the resident. When these types of facilities are lacking, the elderly are prematurely placed in nursing homes. Respondents to the national Catholic charities survey have indicated a great demand for intermediate type housing for the elderly. Termination or reduction of funds for housing congregate services will severely aggrevate a critical situation.

Catholic Charities U.S.A. respectfully requests that there be no cancellation of fiscal year 1986 budget authority for section 202, section 8, and congregate housing services.

It is further requested that there be no reduction in these programs for fiscal year 1987. In order to maintain the current level of housing and to provide a minimal response to the current need, these activities should, in the very least, be funded at the fiscal year 1985 level. The proposed rescissions and/or reductions in funding will cause great harm to the elderly population of this nation.

My final sentence is, we really should do more congregate housing because that does enable those who are not ready for nursing home facilities, but who do need some personal care, to get that care, and it would save the government a great deal of money. It would save the States a great deal of money, too.

I wish to thank the committee for this opportunity to testify on behalf of the Archdiocese of New Orleans and Catholic Charities U.S.A.

Thank you very much, Mr. Chairman.

Mr. ROYBAL. Thank you, Archbishop Hannan.

[The prepared statement of Archbishop Hannan follows:]

STATEMENT OF ARCHBISHOP PHILIP M. HANNAN, ARCHBISHOP OF NEW ORLEANS

The Roman Catholic Church of the Archdiocese of New Orleans organized its Commission on Housing and Community Life back in 1967. This initiative was based on the apparent need to provide decent and affordable housing for low income families and older citizens. New Orleans, as was the case in many other major American cities, was becoming increasingly aware of the needs of its growing population of elderly citizens. There was also developing a greater awareness of the widespread poverty among the elderly segment of the population. The inability to secure decent and affordable housing was only one of the consequences of growing old and being forced to live on a limited fixed income.

While the numbers of older Americans was growing, the inventory of decent, safe and sanitary housing units, particularly in urban areas, was declining. At the same time that the number of older citizens was increasing, the buying power of their limited incomes was also decreasing. Inflation was depriving senior citizens of the option to purchase decent housing accommodations in the private market sector. For these reasons, the Archdiocesan Commission on Housing and Community Life established a separate not-for-profit entity known as Christopher Homes, Inc. This agency has been the active arm of the archdiocese in constructing and managing housing for the elderly and low income families.

Through its Christopher Homes agency, the archdiocese joined its human resources and some material resources with those of public agencies to make inroads into providing housing for some of its low income senior citizens. Our first sponsorship was in 1968. The Roman Catholic Church of the Archdiocese of New Orleans joined with the U.S. Department of Housing and Urban Development (HUD) to build housing for low and moderate income elderly and families.

Our modest beginning in 1968, in cooperation with HUD, was the development and construction of Wynhoven Apartments. This 200 unit apartment complex for the elderly has been completely and continuously occupied since its opening. Our continuing efforts of working collaboratively with HUD have led us to the point where we now have built more than 2,800 units of housing for the elderly in fifteen different locations. We have constructed 283 units of Turnkey housing for the elderly and families and, in addition, we have acquired 200 units from HUD Property Disposition; thus, we presently operate and/or manage more than 3,300 units of housing for families and the elderly. The preceding figures clearly indicte that our major emphasis has been on the development of housing for senior citizens. We have our greater expertise in building and managing housing for senior citizens. It is important to note, too, that through our Catholic Charities agencies and our Social Apostolate programs, we are able to provide a wide variety of supportive services.

All of our facilities are managed by skilled religious and lay staffs under the supervision of Christopher Homes, Inc. For the elderly, services include full security, twenty-four hour per day monitoring, recreation and crafts, field trips, shopping transportation and a full schedule of social events. It is with great pride that we acknowledge our excellence as a provider of care to the elderly.

Our commitment of resources to our apostulate of housing for the elderly has not been limited strictly to our human resources and the voluntary contributions of our church members. The archdiocese has made use of available land and buildings in order to further this important work. We have sought and utilized grants from private foundations while, at the same time, utilizing conventional financing to expand and enhance our housing programs. It is important to note, too, that our efforts have led to the stabilization of neighborhoods as well as to the preservation of existing structures.

It must be remembered that not only are the elderly, the poor and the handicapped assisted through such programs, but government, too, is a beneficiary. First of all, the Catholic Church's involvement in these programs has prompted other not-for-profit groups to enter the field, thereby assuring a commitment to those served and a compassion for their welfare. In addition, funds expended for erection of these facilities have helped to stimulate a sagging economy and provided jobs and business for the construction industry. Service companies which provide materials, equipment and supplies have seen additional markets opened to them. And the tens of thousands of lay people who staff these homes nationwide—many of whom might be drawing unemployment insurance—are instead returning a portion of their wages to federal, state and local treasuries through their tax dollars.

The Church is driven by its commitment to decent, safe, sanitary housing as a basic human right. Pope John XXIII, in his encyclical "Peace on Earth." stated that every person "has the right to life, to bodily integrity, and to the means suitable for the proper development of life." The Pope listed the essentials to the "proper development of life." Among these human rights are food, clothing and shelter. The Church labors to ensure basic human rights that are essential for full human development. While we are driven by the exhortations of Pope John XXIII, Pope Paul VI and the Second Vatican Council, we know that we are not alone in our desire to meet basic human needs and to honor basic human rights. We share this commitment with the government of this great country of ours.

The United States Congress declared, in The Housing Act of 1949, Section 2, that "the housing policy of this country . . . (is) . . . "a decent home in a suitable environment for every American family." We—government and Church—struggle together to meet this goal. While a great progress has been made towards this proper end, we still have great work to do together. Our shared commitment and our joint efforts will allow us to make even more progress in providing that "decent home" that each individual needs for leading a truly human life.

The Catholic Bishops of the United States issued a statement on housing in 1975. "The Right to a Decent Home" (U.S. Catholic Conference publication) pointed out the disproportionate suffering, from lack of housing, by certain groups in our society. Although it has been more than a decade since the bishops' statement was issued, their observations about the disproportionate suffering of the poor and special housing problems of the elderly are still relevant today. Concerning the needs of the elderly, the bishops stated: "Many elderly people have special housing problems resulting in part from their small fixed incomes, growing isolation, rising property taxes and housing maintenance costs. New approaches to housing maintenance and health care are needed to enable the elderly to remain in their own homes and communities. Present government housing programs for the elderly do not begin to meet the need" (Section F, #44). It is important to state, for the record, that over the past decade we have begun to address the need of providing adequate housing for the elderly. Great progress has been made through the cooperative efforts of private non-profit organizations, such as the churches and the federal government.

The progress that has been made must be recognized as the foundation for greater efforts in the future. We have been good partners with government, through the Section 8 and Section 202 programs, and we wish to continue this vitally important effort. The partnership is working through these programs. We are well aware that the Church alone cannot solve the housing problems of our country. We advert to the U.S. Bishops statement of 1985: "The Church alone cannot provide a significant quantitative answer to the cries for better housing. This is not its specific role, nor does it have the financial and technical resources to build all the required homes." While we admit that we cannot accomplish the task alone, we do know, from experience, that we can work together with the government to alleviate the suffering of some of the most vulnerable in our society—the elderly, the handicapped and the homeless.

As mentioned earlier, the Catholic Church of the Archdiocese of New Orleans is certainly not alone in its efforts to alleviate the problem of adequate housing for moderate and low income families and the elderly. Many other Catholic dioceses across the country have undertaken major developments aimed at providing housing for the elderly. Acting primarily through its Catholic Charities agencies, the archdioceses of Boston, Chicago, Miami, New York, San Francisco and Washington, D.C. have worked to provide housing for the elderly. And, not only Catholic church organizations have sought to assist in solving the problem. The American Association of Homes for the Aging (AAHA), also presenting testimony here today, represents over 2,500 housing and health-related facilities for the aged. It is noteworthy that over 75% of AAHA member homes and facilities are affiliated with religious organizations. It is obvious, then, that churches and religious denominations are willing to work with the government to help meet the needs of our aging population.

While I cannot speak for the other religious denominations involved in providing care for the poor and the elderly, I can provide information about Catholic Charities U S A (formerly the National Conference of Catholic Charities). Catholic Charities agencies across the country expend over $700 million to provide social services of all kinds to all age groups. Two such services are homemaker services and home health care to the elderly in their homes. Needless to say, this helps the elderly to stay in their homes longer and thus enables them to continue to be independent. All of us who serve the aging population know that this is of paramount importance: assist the elderly to remain independent for as long as possible.

The Catholic Golden Age Foundation two years ago provided Catholic Charities U S A with a grant to stimulate elderly housing across the country. Elderly housing, in this context, includes housing for independent living, congregate care, nursing homes, shared housing and accessory apartments. As has already been stated, Catholic Charities agencies across the country have sponsored Section 202 buildings. These facilities are managed with great skill and compassionate care for those who reside in them. Reductions in the Section 202 may very well preclude any further developments in housing on the part of Catholic Charities' member organizations.

Catholic-sponsored housing for low income elderly has also been reliant upon the Section 8 rent subsidy program. The elderly poor make great use of this program. Without Section 8 assistance, the elderly are not able to compete for adequate housing. The proposed budget for 1987 calls for a freeze on the fair market rents on which HUD subsidies are based. Those residents now receiving Section 8 assistance would have to pay, out of their own pockets, most or all of the necessary annual rent increases. This would certainly raise the cost of rent to above the current legal limit of 30%. The low-income elderly will not be able to meet future increases from their own limited financial resources. The rent increases are necessary in order that the operating sponsor be able to meet the rising costs of maintenance, repairs and utilities. Catholic Charities U S A requests serious reconsideration of the wisdom of the proposed freeze of fair market rents. Implementation of this policy could have a disastrous effect on Section 202 buildings.

Catholic Charities U S A has gathered information about the need for housing that lies between independent living and nursing home care. This type of facility is known by various names in different parts of the country: elderly group homes, congregate care, personal care or domiciliary care. In such facilities, no medical care is administered; one or more meals per day are served and personal assistance is given to the residents. When these types of facilities are lacking, the elderly are prematurely placed in nursing homes. Respondents to Catholic Charities U S A survey have indicated a great demand for intermediate type housing for the elderly. Termination or reduction of funds for housing congregate services will greatly aggravate a critical situation.

Catholic Charities U S A, therefore, respectfully requests that there be no cancellation of FY 1986 budget authority for Section 202, Section 8 and congregate housing services. It is further requested that there be no reductions in these programs for FY 1987. In order to maintain the current level of housing and to provide a minimal response to the current need, these activities should—at the very least—be funded at the FY 1985 level. The proposed rescissions and/or reductions in funding will cause great harm to the elderly population of the country. Problems of homelessness are of tremendous proportions already. Reductions in housing assistance programs can only increase the numbers of homeless in our American cities and towns.

I wish to thank the House Select Committee on Aging for this opportunity to testify on behalf of the Archdiocese of New Orleans and Catholic Charities U S A.

Mr. ROYBAL. Thank you, Mr. Hannan.

The Chair recognizes Mr. Ed Quinn.

STATEMENT OF EDWARD L. QUINN, PRESIDENT, THE ENTERPRISE FOUNDATION

Mr. QUINN. Mr. Chairman, distinguished members of the committee, I am Ed Quinn, president of Enterprise Foundation. I would like to—I, too, submitted a complete statement and I would like to summarize that briefly. What I would like to do is mention very briefly what the Enterprise Foundation does and then give a few examples.

The Enterprise Foundation, which was established by Jim Rouse, was established to help the very poor help themselves into decent housing.

A large number of the very poor, of course, are the elderly, and so even though Enterprise doesn't focus on the elderly, we find that in many cases the groups that we work with are working with the elderly.

We currently are programming in 24 cities with 54 neighborhood groups. These cities represent the major cities of the United States, such as New Orleans, where we will be starting soon, in New York City, Washington, DC, Boston, Chicago, Philadelphia, and so on, most of the major cities.

Our program, what we do is to provide financing, technical assistance and training to groups in the neighborhood to help them provide housing, but not just housing; our philosophy is that housing should be seen in the context of the total neighborhood, so that the other social services are also delivered as part of the housing, so we don't look for housing projects.

In that process, our groups have worked with the elderly. Incidentally, although philosophically we feel that it is very important to have Government subsidies such as section 8, section 202, and the other available subsidies, certainly the community development block grant moneys, we are looking at public-private partnerships and when we work in a city, we try to bring together all of the resources available.

We provide financing, mainly low-interest loans, but technical assistance is one of the areas I would like to address. We found that as we began our work in 1982, one of the greatest barriers to affordable housing was the cost of finance and another the cost of construction. So, we set up a financing subsidiary to lower the cost of financing, and one of the ways we have done that is through syndication.

So, we recommend that the current tax incentives that provide for low-income housing be retained. The Senate Finance Committee is now considering these tax incentives. The House Ways and Means bill did provide for low-income housing incentives to remain intact. However, in deciding on the minimum tax, the deductions that could be taken for low-income housing were added as part of the minimum tax, and consequently what the House has given on one hand was taken away with the other.

We would recommend that this committee consider continuing the tax incentives for low-income housing. We feel that this is an important addition to housing incentives that the Archbishop mentioned, such as sections 202 and 8.

In addition, in the area of technical assistance, we found that in looking at construction costs, one of the major ways that housing became unaffordable, and this was certainly true of the section 8 program, too much money was going into construction.

We set up a rehabilitation work group comprised of 10 experts on construction and we feel we can lower the cost of construction 20 to 40 percent.

To give an example of how these two combined to work together, the tax incentives, and the technical assistance to reduce the cost of construction, in the city of Cleveland, we are working with the Cleveland Housing Network, a coalition of nine neighborhood groups.

We have put together a syndication. These are single-family homes. Many of them have extended families—these are large victorian homes—so you have your elderly population in them, and if you took a home for $40,000, which is what these were costing, acquisition and rehab, with expensive rehab, and you can reduce that 20 percent by careful attention to reducing the cost of construction, of rehabilitation, that brings us down to $32,000. You then can syndicate for $8,000 inequity. That brings it down to $24,000. And then if you can get 4-percent money, what you have done is taken a $40,000 home at 12 percent, that mortgage would run $450 a month. You bring it down to $24,000 at 4-percent, you have brought the cost down to $150 per month.

In the syndication that we set up, the family is there for a period of 15 years as a renter, and then it is turned over to the family as the homeowner. The rent is $180 a month during this 15-year period, the amortization of the mortgage. After that, the family becomes a homeowner and principal and interest runs about $150 monthly, so there is an extra $30 for paying expenses, and the family at the end of 25 years owns the home free and clear.

As I say, many of these families are extended families and have elderly in them.

A specific project for the elderly here in Washington, we helped Jubilee Housing in the Adams Morgan neighborhood, acquire 44 units.

The financing was put together through a low-interest loan fund, a small grant, and a low-interest loan from Enterprise Foundation. We now have 44 units that we are gradually being converted into housing for the elderly. This will be intergenerational housing, where there will be extended families. There will be efficiencies for the elderly, and there also will be one bedroom for elderly couples.

So, eventually the mix will be completely elderly, but we are gradually going toward that.

On the financing side, because of the financing and the way it was structured and because of the technical assistance to reduce rehabilitation costs, an efficiency rents for $179, and the one and two bedrooms range from $265 to $310, and that includes heat, which makes it affordable for our target population, families with incomes under $10,000.

Again, I stress that many cases we are dealing with the elderly, but we are trying to do it in a way that ties the elderly into the neighborhood and into a family situation.

One more example, in this project in Washington, they have a building next door where a preschool is in the basement. The preschool children play in a courtyard that is also available to the elderly for recreation. In this way, we see tying the elderly into the community. Also a community recreation center is in the basement of the building.

We feel that it would be important that this committee encourage HUD to provide a demonstration project for technical assistance, whereby through creative financing and through lowering the cost of rehabilitation you can increase the number of units available for the general population, including the elderly, without a substantial increase in dollars.

We think this is essential, even though, as I say, our philosophy is that we feel Government funds should come back in and subsidies should be continued: However, we recognize that with reduced funding, other approaches have to be brought to bear and our approach is truly a public-private partnership.

Thank you very much.

[The prepared statement of Mr. Quinn follows:]

STATEMENT OF EDWARD L. QUINN, PRESIDENT, THE ENTERPRISE FOUNDATION

Mr. Chairman, distinguished members of the Committee, my name is Ed Quinn and I appear before you as President of The Enterprise Foundation, a publicly supported charitable foundation. Enterprise's mission is to help the very poor help themselves into decent housing and out of poverty and dependence into self-sufficiency. A significant number of the poor are the aged.

Enterprise provides technical assistance, training and financing to non-profit neighborhood development organizations to enlarge their capacity to reduce housing costs, obtain low-rate financing, find local business support, establish job placement agencies and provide other social services. We are currently working with 54 neighborhood groups in 24 cities throughout the United States. These groups are part of the Enterprise national network. Although Enterprise does not focus on housing for the elderly, many of the housing units developed by its network are for low income senior citizens, and our groups have developed subsidized housing for the elderly. With the reduction in federal subsidies, senior citizens are facing the same difficulty in finding affordable housing as the population at large.

My testimony will address two broad areas: (1) The value of technical assistance to neighborhood based housing development and the Federal role in providing technical assistance to non-profit neighborhood development organizations. (2) The need for continuing Federal tax incentives for the production of low income housing.

The need for technical assistance

Enterprise has learned over the past four years that neighborhood based housing development is an effective way to revitalize our neighborhoods; to help people regain their sense of self-worth; and to revitalize neighborhoods and bring the poor back into the mainstream of American society. This observation is based on our work in 24 cities with 54 neighborhood groups. It is supported by the experience of the government with large housing projects that did not tie into the social fabric of the communities wherein they were located. Many of these housing projects stand vacant or are havens for drugs and violence of every kind.

Consequently, Enterprise is not just interested in the production of housing, but we see to it that the housing is an integral part of the community. Enterprise believes that adequate housing underlies the revitalization of impoverished communities. Without an adequate roof overhead, heat and reasonably clean surroundings, it is impossible for anyone to start up the economic ladder of education and employment. Housing is indeed centeral and critical to the welfare of communities throughout our country.

Having decided upon the importance and effectiveness of neighborhood based housing, Enterprise has been working with neighborhood groups over the past four years to build their capacity to develop housing. We have learned that the neighborhood groups require a substantial amount of technical assistance in order to obtain adequate production levels, to keep costs low enough to make the housing affordable, and to properly manage and assist low income families, especially with home ownership. The main criticism of neighborhood developers has been that the production levels are not adequate. However, without proper resources and given the constraints of working with low income families, including low income elderly, it is understandable that the non-profit groups are not able to obtain large production.

Early in its experience, Enterprise realized that there are two major barriers to affordable housing for very low income families. One is the cost of financing and the other is the cost of rehabilitation. To reduce the cost of financing, Enterprise has set up the Enterprise Social Investment Corporation, a wholly owned for-profit subsidiary of the Foundation that provides syndications of low income housing to raise equity funds. It puts together financial packages to assist the non-profit neighborhood groups in marshalling resources from government programs as well as private conventional and below market rate financing. For example, in a 55 unit school conversion for senior citizens in Philadelphia, the Enterprise Social Investment Corporation helped obtain a UDAG and also structured the syndication which was marketed to the Sun Company. Because ESIC's costs are low and the marketing is done directly to a corporation, almost 30% of the total development cost will be provided by the equity raised through the syndication. With the UDAG, a low interest loan from the City of Philadelphia and a low interest loan from Cigna and Enterprise, the apartments will be affordable to very low income senior citizens.

In order to reduce the cost of construction, Enterprise set up the Enterprise Rehabilitation Work Group as a division of the foundation by bringing together 10 experts in construction to search out methods, materials and procedures for reducing the cost of construction. The research has been largely completed over the past two years and the emphasis is now on implementation. The staff of the Rehab Work Group assists the neighborhod group in reducing the cost of construction by at least 20% to 40%. In some cases they have assisted a neighborhood group in setting up its own construction company, thereby reducing cost as well as creating jobs for residents of the neighborhood.

Because technical assistance provides the necessary support and resources for neighborhood based housing development, it is an effective way of maximizing the remaining Federal funds and incentives for housing. Technical assistance makes it possible to involve private sector financing and leverage funds from all sources. For example, the leverage ratio on Enterprise's own money going into projects, is approximately 6 to 1. The UDAG ratio in the Hawthorne Project in Philadelphia is 7 to 1.

In summary, the implications for federal housing policy of reduced cost of construction and highly leveraged financing are that the Department of Housing and Urban Development should be able to greatly expand production of housing through a modest outlay of funds for technical assistance.

Enterprise's recommendations.—Enterprise makes the following recommendations: The Federal government should fund a few demonstration Technical Assistance program models for relatively small expenditures. Examples of models:

Network of neighborhood housing groups with a central, professional group with capacity to provide technical assistance and training in low cost construction and finance.—A mini-Enterprise Foundation.

City wide approach—the development and implementation of a process to make all housing in a city of 200,000 fit and livable within 10 years.

Intensive work to revitalize one large neighborhood in a major city including technical assistance for housing and economic development.

Low cost Material Providers—set up a warehouse for donated building materials sold at 25% of retail to neighhorhood housing organizations (similar to food banks).

Establish city-wide equity fund and the technical assistance in structuring syndications. Federal government could set up small technical teams similar to Enterprise's Rehab Work Group and Social Investment Corporation focused on developing certain models. The government could tap expertise of private sector technical assistance providers like Enterprise.

Particularly, the HUD Office of Urban Rehabilitation (monitors CDBG funded housing programs by cites and states; runs Section 312 and Rental Rehab) could be given encouragement to work with non-profit groups. At present, it is a professional office that has delivered good technical assistance and programs, but rarely to non-profits.

2. The need for Federal tax incentives

Current situation.—The 1980 census shows that 42 percent of the 13 million families makikng less than $10,000 per year were paying over 50 percent of their income for rent, often for substandard housing. The situation is worse today as gentrification, abandonment and demolition remove housing stock available to the poor. Rents increase yearly. Incomes of poor people do not increase as rapidly as the cost of living. Thus, increasing numbers of families fall below the poverty line.

With the termination of many federal programs, including the Section 8 Rental Assistance Payments Program, and the proposed sharp cutbacks in all types of assistance for low-income housing, available federal resouces for addressing the housing needs of the very poor are being eliminated.

The Reagan Administration has issued a challenge to the private sector for creative solutions, for individual and local initiatives to solve, at the local and state levels, the difficult housing problems of the poor.

Private sector response.—The Enterprise Foundation, along with several other private sector non-profit organizations, has responsed. We are working with non-profit neighborhood housing groups across the country to provide technical and financial assistance to rehabilitate the available housing stock for low-income families.

The Enterprise Foundation has stimulated corporate, and other private sector participation in non-profit housing rehabilitation in distressed neighborhoods at the heart of American cities through the use of existing tax incentives for low-income housing. This aggressive new campaign, just recently launched, is making possible very low-cost rehabilitation through investment of corporate funds not previously available for housing the poor. Most of these neighborhood projects have no ongoing federal subsidies and are being built as lowest-cost rehabilitations with substantial amounts of private money invested, usually with the commitment of a corporation concerned with social responsibility.

Case examples of impact of tax reform proposals.—What we are concerned with is how the tax reform proposals will impact the rehabiliation of housing for the poor. Many of the Foundation housing developments base their financing structure upon the use of existing low-income tax incentives, particularly Section 167(k) five-year amortization of qualified rehabilitation costs. In all cases, private resources, including limited partner investment by corporations and individuals, mortgages financed by banks, savings and loans, and insurance companies, and second mortgages by The Enterprises Foundation or other charitable organization, comprise the bulk of the financing.

Without the availabilitiy of use of the tax incentives providing approximately 20–25 percent of the financing costs, the rehabilitation could not meet the needs of the poor. Nor would other private sector resources be available, as the use of tax incentives provides the "equity money" in the transaction that leverage the other private sector resources.

For instance, in a parternship formed between the non-profit cleveland Housing Network and SOHIO, SOHIO will conbtibute as equity investment an amount equal to the tax benefits it receives from the houses being restored. The City of Cleveland will contribute a corresponding amount of low-interest second mortgage money, and a local bank will provide the first mortgage.

The rehabilitated single-family houses will rent for $180 per month during the period of the 15-year partnership and be sold at the end of that period to the low-income tenant [allowed under Section 167(k)].

The Cleveland Housing Network, as general partner, will carry out its social service and advocacy program for the tenants, including six-month inspections of the properties with the right to evict those who do not properly maintain houses. This non-profit coalition of nine housing groups is making a major impact upon the poorest neighborhoods in Cleveland.

Involvement of the private sector is possible through recovery of "equity money" tax deductions generated over the life of the partnership and through leverage of this "equity money" to induce other bank or financial institution participation. The example cited is one of many now being entered into with major corporations. This marks the first time corporations have taken a direct role in neigbhorhood housing for low-income families.

Proposal for targeted use of existing tax incentives.—We are The Enterprise Foundation and other sponsors and supporters of urban and rural revitalization efforts believe that targeted exceptions or incentives should be made part of any tax reform legislation.

Certain provisions should be included in any new tax legislation to preserve or substitute incentives for housing for the very poor if they meet narrowly-defined criteria designed to insure maximum cost-effectiveness relative to lost tax revenues. We suggest as such criteria that existing low-income housing incentives be preserved for low-income rental rehabiliation or new construction projects where syndication proceeds are used either in the project itself, or for new low-income rehabiliation or new construction projects.

In effect, these criteria would allow a targeted tax treatment for cost-effective projects largely financed by the private sector and consistent with national policy. Thus, we ask for projects meeting such criteria, the following:

(a) Retention of the five-year deduction [Section 167(k)] for rehabiliation expenses incurred in low-income housing rehabiliation; (b) Retention of the "at risk" exception for low-income housing; (c) Retention of an accelerated depreciation formula for low-income housing costs; (d) Retention of preferential capital treatment for low-income housing; (e) Retention of existing investment interest limitation for limited partner investors who invest in low-income housing; and (f) Retention of current deductions for construction period interest and taxes in low-income housing development.

Analysis of house tax revision bill.—Members of the House Ways and means Committee recognized the need to keep tax incentives for low-income housing. In 1985 homeowners benefited from over $38 billion of tax savings, primarily through mortgage interest deductions, while less than one billion was used as tax incentives for very low-income rental housing. Furthermore, direct Federal low-income housing subsides have been severly cut, the need for affordable housing has greatly increased, while tax reform measures bring the prospect of severe rent increases or complete unavailability of any affordable housing. The House Ways and Means Committee acted to encourage the efforts of the private sector in low-income housing rehabiliation and new construction through continuing limited low-income tax incentives.

However, due to the complexity of the multiplicity of tax reform changes and the nature of low-income housing financing, three major provisions of the House Bill make the low-income tax incentive designated for housing the poorest largely unuseable. First, the minimum tax provisions classifying low-income housing along with other partnership losses as tax preference items, make the sale of those losses of marginal value. Low-income housing generates substantial losses using accelerated depreciation, the principal tax incentive provided by Congress, and has little or no cash flow and little property appreciation. Thus, tax losses are its incentive value. The minimum tax provisions will, in most cases, remove any willingness for the private sector to invest.

Secondly, since non-profit organizations must be involved in related partly loans at low interest rates to make housing for the poorest affordable, extension of the at-risk rules to real estate "related party" loans for low-income projects would hurt the typical financing structure for low-income partnerships. Furthermore, without the availability of favorable seller financing, most existing low-income property syndications cannot be resold without conversion to market rents, removing critically needed supply from the very poor.

Finally, in our financings like those of similar organizations, homeownership is an important component of our rehabilitation and new construction programs. Typically, at the end of the lease or rental period, working with our neighborhood groups, we will provide for tenants showing homeownership responsibility to assume ownership. The extension of real estate depreciation lives and the change in capital gains tax for donated property increases both the amount of taxes due to recapture of depreciation and tax rate as well as the incentive of private investors to participate in homeownership programs.

A simple solution to these and other technical difficulties, particularly in light of Congress' commendable intentions of eliminating tax abuses while also meeting a critical need in housing is to qualtify the current intended tax incentive for low-income housing rehabilitation and new construction, and provide it in the form of a refundable or non-refundable tax credit, much like the rehabilitation tax credit. In a simplified manner, through a tax credit, Congress can directly target what it intends—removing the complexities and inefficient use of the tax law and encouraging the private sector to produce more low-income housing.

CONCLUSION

We encourage this Committee to recommend to the Senate Finance Committee and other interested committees of Congress to either exempt the current tax law for low-income housing tax incentives from the proposed changes or to enact a targeted refundable or non-refundable tax credit at the 20% rate similar to that proposed for rehabilitation tax credits for historic buildings.

Without Federal tax incentive assistance, housing rehabilitation or new construction programs for the poor will proceed at a negligible pace, and the current housing crisis will worsen. Many, including the Administration, recognize the problem, yet it is hard for the private sector to take up the call without any help from the Federal Government. Working together through a reasonable package of tax incentives there is hope for beginning the huge task ahead—meeting the housing needs of the very poor in a cost effective, sustainable manner.

Further, we recommend that this Committee work with the Department of Housing and Urban Development to provide funds for a Technical Assistance Demonstration Project for reducing costs of construction and financing to provide affordable housing for the poor, including the elderly poor.

Mr. ROYBAL. Thank you.

The Chair now recognizes Mr. Sheldon Goldberg, who is the executive vice president of the American Association of Homes for the Aging.

STATEMENT OF SHELDON GOLDBERG, EXECUTIVE VICE PRESIDENT, THE AMERICAN ASSOCIATION OF HOMES FOR THE AGING

Mr. GOLDBERG. Thank you, Chairman Roybal, Chairman Bonker, members of the Select Committee and Subcommittee.

I appreciate the opportunity of appearing before you and sharing some of our ideas, both the innovations which we have been trying to bring about in the elderly housing field, as well as a number of concerns we have about the existing operation of the section 202 program and consequently reform ideas we would like to share with you.

As I said, I very much appreciate this opportunity and look forward to responding to any concerns the committee has. I have submitted my testimony and I would like to request the opportunity of submitting additional testimony for the record.

Mr. ROYBAL. Without objection, that will be the order.

Mr. GOLDBERG. Thank you very much.

The American Association of Homes for the Aging, which we refer to as AAHA, is currently celebrating its 25th year. We are a membership organization representing 501(c)(3) sponsors of nonprofit housing and health related facilities.

We have facilities serving the elderly literally throughout the country, with approximately 3,000 facilities which are members of our organization. On any given day, our members are serving approximately 500,000 elderly persons in the country.

Our members are sponsored primarily by religious and affiliated organizations, representing literally every denominational interest. We have facilities also that represent governmental entities at the local level, unions, and trade organizations; but all our members are non-profit organizations.

The interests of the American Association of Homes for the Aging, founded 25 years ago, have been primarily focused on providing health and necessary housing services to the frail elderly population of this country. Given this interest, we are extremely concerned about how the immediate health and housing services will be provided to the elderly in the future.

You have heard, and this committee is most aware, of the dramatic demographic changes that are going on in the American society. It is interesting to note that the most dramatic of these changes is occurring in the population which is over age 85. That population, even though significant today, will triple in the next 15 years. It will triple again in the following 30 years.

This is a population that is most in need of adaptive living services, housing services; they are the most vulnerable who potentially will require health care services oftentimes provided in institutions. We feel very strongly that adequate housing plays a major role in terms of reducing the reliance on institutional services, which obviously are much more costly.

Congress and the Federal Government has had a 50 year commitment to assist and provide elderly housing in this country. This has been a tradition which has provided tremendous opportunities and tremendous housing resources to the people of this country. Despite this long-standing commitment, it is interesting to note that the University of Michigan conducted a study which found that we would have to produce approximately 275,000 additional housing units simply to keep pace with demand for housing for the elderly of this country.

What this indicates is a dramatic need for additional housing, adaptive housing to meet the needs of an increasingly frail, elderly population.

What I would like to do now is talk about some of our private efforts, efforts undertaken by the members of our organization and by the American Association of Homes for the Aging itself, and touch briefly on those. contained in our testimony.

One of the areas which we represent is our facilities called continuing care retirement communities. They are oftentimes referred to as life care. We represent probably about 95 percent of such facilities throughout this country. There are anywhere between 400 and 500 of these facilities currently, and a tremendous amount of additional development is occurring.

One of our concerns about life care communities is that they generally serve a population in the middle or perhaps higher income ranges. One of our initiatives is how do we develop the continuing care retirement community concept which both provides both an array of health and housing services and extends these services to a broader spectrum of incomes of the American society.

A study conducted by the Wharton School of Finance on continuing care facilities indicated that there were savings to the Federal Government via reductions in the Medicare and Medicaid costs. There was increased longevity, increased quality of life, and lower morbidity rates. Our concern is how do we extend this concept to a broader cross section of the American population.

We have been fortunate enough to receive a grant from the Robert Wood Johnson Foundation which will allow us to provide some resources to look for what we would call lower income alternatives. How do you develop this concept and provide it to a broader economic strata of the American population; how do you further develop this resource that works, is a service accepted by the elderly, and is one which we think can have impact well beyond just simply providing housing, but also reduces much of the health care burden currently with the Federal Government.

Another area in which we have provided assistance is in the areas of capital financing. We have conducted a 2-year effort trying to develop what is commonly referred to as credit enhancement instruments.

Those who are involved in providing nonprofit health and housing services have long been aware that the major bond rating agencies—Standard & Poor and Moody's—have made it relatively clear that they are not interested, at least at this time, in rating bonds for nonprofit sponsors.

What AAHA has tried to do is create a credit enhancement instrument. We have been hampered by the problems currently being felt by the insurance industry which is the major enhancement entity and which generally has not accepted this product. We will continue this effort to develop an enhancement tool, and what this simply does is provide lower cost financing by insuring credit.

We feel by doing this, we are developing a vehicle by which we can provide a broader array of services from continuing care housing to a broader economic sector of the population.

We have looked at insurance pools, because one of the responses from the insurance industry and the bond financing markets of this country is that the facility takes on a large health care liability by providing any and all services to that frail elderly person who resides in the continuing care home. We have tried to create risk pools where the pool can, rather than working for one facility serving 300 people, perhaps serve literally thousands of facilities. We have not yet met with success in these efforts, but our efforts continue because we feel they are important.

AAHA has provided development planning assistance. We have staff which go out and work with nonprofit sponsors, both members of this organization and others which request assistance.

Our purpose is to help them understand the development process, help them focus on their mission of serving elder and frail persons in our society, and assist them in trying to find new and creative financing options which exist within their community or within the broader markets of this country. This effort continues today and will continue well into the future in our organization.

We have developed a continuing care accreditation program. This is designed primarily to instill consumer confidence. It is aimed at consumers and it involves consumers on the accreditation process to insure both that the programs are functioning well and are well operated and structured. We further seek to ensure that the financing of these are well put together, so that the consumer who invests or may decide to live in one of the continuing care communities can have some assurance of quality and that the facility is operated in a financially sound fashion.

We have also developed a certification program for managers of housing facilities. We recognize that the needs of the elderly population are very unique. They are a different population, and require a different sort of housing than regular families.

The section 202 elderly housing program provides a good example. Generally if one looks at residents of an existing 202 program, the average age is 78. The average age in new post-1974 facilities is approximately 71. This demonstrates a need for management which is a far cry from the traditional housing management going on in the country serving families or younger adults. We have therefore tried to provide a better understanding of gerontological issues, a better understanding of the management required for these programs.

What we try to do in these and many other projects, which I would like to share in further testimony with you, is to create new understanding and further development of options and alternatives other than dependence upon the Federal Government to do these things.

But the true reality is this: There is a broad cross section of the American population, whether that be 20 or 25 percent, that, regardless of the best efforts by nonprofit sponsors, cannot be reached with housing and services, even with the most creative and innovative financing. Therefore there is a reliance on the Federal Government, and specifically a program such as section 202, to provide tremendous housing resources for people in this country, and to provide an affordable, acceptable living environment for these folks.

And so what I would like to direct my concerns to you in this hearing is a number of issues relative to the reform of the 202. We recognize it as a crucial, important priority, but also recognize that you are faced with tremendous pressures, pressures stemming from the budgetary deficit in this country. We also recognize that you are pressured by tremendous human need which exists with the frail elderly population.

So what I would like to do in the few moments remaining to me, is to share a number of our ideas and expand on those on further testimony, ideas that might be useful in modifying or changing the way the section 202 program is structured, to make it more effective, more cost effective and more efficient.

The first issue I would like to focus on is one simply of the cost of developing these projects. To develop a quality product that serves quality people obviously requires an investment of certain amounts of capital. It gets to the point where if you reduce the capital and start shaving the edges and margins, you wind up with a product simply lacking in quality. This is one of our primary areas of concern.

We have experienced in the last several years a gradual budget-cutting approach, rather than an effort to reform or look at the whole system. Rather than making the system more responsive, what we have experienced is a program which has been basically shaved at its margins and shaved again at its margins. This is therefore an area which has to be addressed.

One of the principal concerns we have is that if one looks at housing in this country, and elderly housing specifically, I doubt whether one would find a program that works better than section 202. There are 1,800 plus 202 facilities developed in this country, and I share with the committees that there is one facility we are aware of that has ever gone into default. I would assume that there probably is no other Federal program that has experienced such success.

Another point of interest is on the cost containment policies of HUD. The General Accounting Office identified that there has been a 16-percent reduction in the cost of producing these facilities since 1983. One of my concerns is simply that you can't cut it any further. A classic example of this is a facility that was developed for the frail elderly. It is a low-rise facility, meaning it has a couple of floors to it. And to achieve this 16-percent cost reduction, the decision was made that the sponsor could not put an elevator in the protect.

I must remind the committee these are facilities that are serving populations averaging 78 years old. It is very difficult for these people to navigate the steps.

Another area of concern to us is the calculation of what are called fair market rents, or FMR's. This is a system which was created in 1974, and simply looks at market rents within the community they operate. The concern we have is simply that it does not fully recognize the unique design features needed by the elderly population, compared to younger families, where there is generally no need for access to wheelchairs, there is no need for access to elevators. There is not generally the need for the additional types of services which keep these people independent. Because of this problem and problems with the FMR methodology, calculation of FMR's it has also become very subjective; it has also become blatantly manipulative, as OMB has used FMR's as a mechanism for holding down the rental cost for these facilities, which again are unique and are not necessarily identical to what is existing in the community for regular family housing. The elderly have unique needs.

These are a few of our ideas, and I know time is short, but our concern is that, as we target this population, we recognize the growing and future needs of the elderly population and do not shave the margin so far that we do not jeopardize efforts to meet, the tremendous demand of the elderly for quality, affordable housing.

One concern I would like to share with the committee in my closing comments is relative to the tax policies. If, in fact, we are going to find private alternatives to stimulate the development of low-income housing and of housing serving the elderly population, it is crucially important that we maintain tax-exempt financing. Without tax-exempt financing there is no way whatsoever the nonprofit sponsor of health and housing services in this country can begin to approach meeting the needs of the elderly population in the lower-income groups.

The second concern of AAHA is that our tax policy encourage sponsors of housing in this country, whether they do it through taxable or nontaxable means, whether they are private or nonprofit organizations, to go in for the long haul.

We have seen too often that many of the deals that have been put together are constructed solely for the tax benefits that result for the individual. If one looks very clearly, you will find out that, to preserve the full benefits of that tax break given to investors, the facility would have to be sold in somewhere between 7 and 11 years. What happens to the frail elderly population is simply this: They are on fixed income. They do not have the resources to pull out the equity and refinance and take out a profit. Literally what has happened is many of the frail elderly who will remain there after the facility is sold for many, many years, and find it very, very difficult to afford the cost of living in housing which, due to excessive taking of profit on equity, has no capital rolled back into capital improvements and maintenance.

I very much appreciate this opportunity to be before the committee and subcommittee to share AAHA's views on reform of section 202 and other areas in which we are trying to stimulate innovative efforts to develop appropriate housing for the elderly of this country. Thank you very much.

[The prepared statement of Mr. Goldberg follows:]

STATEMENT OF SHELDON GOLDBERG, EXECUTIVE VICE PRESIDENT, AMERICAN ASSOCIATION OF HOMES FOR THE AGING, WASHINGTON, DC—OPTIONS FOR APPROPRIATELY HOUSING THE ELDERLY: TODAY AND TOMORROW

Chairman Roybal, Chairman Bonker, Members of the Select Committee and the Subcommittee, I am Sheldon Goldberg, Executive Vice-President of the American Association of Homes for the Aging (AAHA).

On behalf of AAHA, I would like to thank the Committee and Subcommittee for conducting this hearing on options for meeting the future housing needs of the elderly. Both the Select Committee on Aging and the Subcommittee on Housing and Consumer Interests play a key role in focusing Congressional attention on this important issue. I deeply appreciate this opportunity to briefly outline the Association's various efforts to assure the availability of decent, affordable housing for our nation's older Americans, an issue of critical importance to AAHA's membership.

AAHA represents over 2,700 nonprofit housing and health-related facilities for the aged which serve approximately 500,000 elderly individuals throughout the United States. Over 75 percent of AAHA member homes are affiliated with religious organizations, while nearly all the remaining members are sponsored by private foundations, government agencies, unions, fraternal organizations and community groups. More than half of AAHA's members operate some form of residential facility for the elderly and many receive assistance from the Department of Housing and Urban Development (HUD) under its various programs, including Section 202, Section 8, Section 236, Section 221(d)(3), and Section 231.

THE NEED FOR EDERLY HOUSING

AAHA has long recognized and responded to the tremendous need for housing clearly inherent in the rapid growth of our nation's elderly population. The number of older Americans has doubled in the past three decades, reaching a current level of 28 million people. This explosive growth is expected to continue well into the next century, and, by the year 2030, one out of every five Americans will be age 65 or over. These general figures, however, mask the true extent of need for development of specialized elderly housing, since they fail to emphasize that the very old (those 85 and older), who have the greater risk of requiring high levels of care, will increase threefold by the end of this century. Driven by the aging of the "baby boom" generation, this very old population will again triple by 2030, with the result that five percent of the American population will be 85 years or older.

A recent Univesrsity of Michigan study estimated that an additional 275,000 new housing units per year will need to be developed through the end of this century. Meeting the growing demand for housing adapted to the specialized needs of older Americans is and will continue to be a top priority of AAHA. And, a continuation of the federal government's 50-year commitment to housing is imperative, and will be addressed in subsequent comments. However, I would now like to describe some of the creative alternatives the Association has been pursuing to meet this challenge both with and without federal assistance.

AAHA EFFORTS

AAHA has developed a range of options to stimulate our members to sponsor and operate quality, affordable housing facilities for the elderly, without relying on direct federal assistance. The following are some of our initatives.

Continuing care retirement communities (CCRCs)

A leader in this industry, AAHA has long encouraged the development of continuing care retirement communities and represents approximately 95 percent of the CCRCs operating in the country. These facilities combine both housing and health care to meet the needs of elderly individuals and allow them to arrange in advance for the potentially high cost of long term care rather than becoming dependent on federal and state programs. Studies indicate that CCRCs contribute significantly to an improved quality of life as characterized by residents' increased activity, improved health, and lengthened life span.

The Association has recently received a grant from the Robert Wood Foundation to work with sponsoring nonprofit organizations to develop methods for expanding the CCRC model to encompass the broader income levels of the elderly than is currently being served.

Capital finance

For the past two years, the Association has worked to develop credit enhancement vehicles for both taxable and nontaxable bonds financing housing and CCRC construction. Because the principle bond rating agencies—Standard and Poors, and Moody's—were not rating bonds for CCRCs and other housing programs serving the elderly, AAHA is developing an enhancement program which could provide lower-cost financing, and, thus, extend the range of these housing alternatives to a broader economic spectrum of older Americans. Unfortunately, these efforts have been hampered by an increasing reluctance of insurers to provide credit enhancement and a significant hardening of the insurance industry generally.

Insurance pool

A major problem in encouraging funding for CCRCs and other arrangements combining housing, services, and health care, is the potential financial risks to the facility of providing long term services to residents. Potential credit markets express great concern about how these costs might affect the overall credit worthiness of the project. AAHA has been working to promote a pooled insurance concept, in which the risk of potential health care liability is shared among a much broader population, rather than by only one facility. Lessening this risk should greatly improve the feasibility of such projects and help attract lower-cost financing.

Development Planning Assistance

As a service to nonprofit sponsors throughout the country, AAHA assists these organizations in creating new, privately sponsored housing options for the elderly, by providing information which increases their understanding of the development process, as well as new, innovative financing alternatives. The Association has also conducted numerous conferences and training sessions on capital financing, housing development, and other aspects of providing housing for senior citizens.

Continuing Care Accreditation

The Association has developed a National Continuing Care Accreditation program to promote consumer safety by evaluating the programs and finances of privately developed CCRCs. Accreditation would be granted only after a facility has met standards indicative of a well-run, financially sound facility. Initially, accreditation has been targeted to CCRCs, but the Association intends to expand the program to include other privately financed housing alternatives for the elderly.

Professional Development for Housing Managers

The Association has initiated a certification program for administrators and managers of residential facilities for the elderly. Operating a facility with an aging population, particularly one in which the residents are becoming increasingly frail, requires the provision of special health and social services to meet the needs of residents. Efficient management also can reduce the cost of operating these facilities, thus freeing resources for other purposes. AAHA's housing certification program, which is being introduced this year, is designed both to offer specialized education in the cost-effective management of these facilities and services appropriate for the elderly and to certify attainment of this specialized education.

Congregate Housing

A congressionally sponsored demonstration program which funds the provision of services for elderly residents in both existing Section 202 (over half of which are AAHA members) and public housing has been administered by HUD for a number of years. Reauthorization and continued funding for this program has been a high legislative priority for AAHA, since provision of services in a congregate setting is an efficient alternative to more expensive institutional care and allows elderly individuals to maintain the highest level of independent living possible. The Association has also promoted congregate housing as an effective response to the "aging in place" phenomenon through various educational offerings, including a congregate housing conference held Blast year in conjunction with the National Association of Housing and Redevelopment Officials.

TAX POLICY

The Association is also attempting to maximize the use of various incentives in the tax code to attract capital for elderly housing facilities. In this regard, the Association views it as extremely important that nonprofit sponsors of elderly housing have continued access to tax exempt bond financing in order to meet the rising demand for housing and make the development of these programs more affordable to elderly consumers. The current confusion regarding the availability of tax exempt debt to nonprofit sponsors has stalled most development of new elderly housing facilities. We hope the issue will be resolved shortly and strongly urge that exempt financing be available on an ongoing basis to allow development of appropriate housing for the nation's elderly.

AAHA continues to explore ways syndications and other partnerships can be used to develop affordable elderly housing. Given the uncertainity of tax exempt financing at this time and a clear withdrawal of direct federal assistance, nonprofit organizations may have to turn to partnerships to finance housing construction. Most arrangements are developed with a clear understanding of the value of depreciation and the tax benefits which exist for the developer. A very quick review of the current rules regarding accelerated dereciation and other tax benefits indicate that property developed under a joint venture is likely to be sold within a period of seven to eleven years. If this is the case, the equity built up in these properties will be removed; new owners may come in and increase the cost of housing to an elderly consumer. Many elderly residents on fixed incomes may be forced to reduce their spending on other necessities, such as health care, energy and food, to pay for the increased cost of housing. We at AAHA are increasingly concerned that many incentives currently available to for-profit sponsors may serve simply as a seed development but do not promote long term ownership. We strongly recommend adoption of public policy that not only encourages development of housing programs for the elderly, but also promotes long term ownership and stability of sponsorship.

THE CASE FOR CONTINUED FEDERAL INVOLVEMENT

As you can see, we are continuing to pursue our nonprofit mission of exploring and developing a wide range of affordable, quality alternatives to meet the housing needs of our nation's elderly. AAHA remains concerned, however, that Congress not ignore the tremendous demand for the low and moderate income elderly housing which cannot be secured through the alternatives discussed so far. Traditionally, older Americans have been overrepresented in the lower range of income. Although recent Administration and other reports have portrayed the elderly as achieving income parity with the general population, aggregate national figures again understate the extent of poverty and need. Three and a half million elderly households have annual incomes of less than $5,000; but only one out of seven receives some form of governmental housing assistance. The fastest growing subgroups of elderly persons are women, the very old, and persons living alone; groups which, coincidentially, are among those with the highest poverty rates. For example, elderly black women living alone are more than four times as likely as the overall elderly population to fall below federal poverty guidelines.

While over 14 percent of all elderly persons live on incomes below the poverty level, an equally large percentage hover just above this standard. These "near poor" older Americans also experience similar difficulty in obtaining decent and affordable housing as the very poor. HUD itself has determined that nearly one in five elderly households live in inadequate housing due either to substandard conditions or rent payments in excess of 50 percent of income.

SECION 202 HOUSING FOR THE ELDERLY PROGRAM

Given the clearly established need, AAHA members have actively sought to develop housing options accessible to this low and moderate income population. Faced with the unavoidable fact that providing housing assistance to the less fortunate is expensive, the nonprofit communtiy represented by our Association has entered into an active partnership with the federal government in providing affordable housing. The benchmark program of this cooperative effort, for the past twenty-seven years, has been Section 202 housing for the elderly and handicapped. One of the federal government's most successful housing efforts, the Section 202 program, has produced high quality, durable housing for the elderly and handicapped in more than 1,800 facilities. To the best of my knowledge, only one facility has defaulted on its mortage obligation, and few have had the financial and managment difficulties experienced by other federal housing efforts. If the Section 202 program has weakness, it has been its limited scale. New units constructed under the program has weakness, it has been its limited scale. New units constructed under the program assist only a small segment of the number needed for our rapidly growing elderly population.

THE NEED FOR REFORM

The 1981 White House Conference on Aging recommended an additional 20,000 units of Section 202 housing be available per year through the end of this century just to keep pace with the need. Recognizing budgetary constraints facing Congress these past few years, AAHA has devoted much of its advocacy efforts to seeking reform of Section 202 which could result in a more efficient and cost-effective program. The Association's support of and advocacy for the Lundine-Heinz reform legislation three years ago represented an initial attempt to increase the productivity of the Section 202 program.

Unfortunately, the Administration's interest in and HUD's attempts toward reform of Section 202 have either been misdirected or implemented solely to slash the budget with no serious consideration of program impact. For instance, while a recent GAO study found that the Department's cost containment guidelines implemented three years ago have reduced the average per unit development cost by 16 percent, the study did not explore that impact on maintenance and operating costs in the future stemming from use of inferior quality building materials. The rigidity and inflexibility of HUD's current cost containment guidelines can further lead to very perverse results; for example, members of our association have actually been denied permission from HUD to include an elevator in a low-rise project designed for frail elderly.

Such unintended results come from a simplistic approach to reform which focuses solely on cutting costs in the immediate year without consideration for the quality of housing produced or the potential for increased expenses in future years. AAHA believes that major reform can be achieved in the Section 202 program, both in financing and provision of rental assistance. Reform which achieves *true* efficiencies in developing and operating these facilities can be achieved while preserving the quality of housing long associated with the program. To this end, AAHA is developing a proposal for Section 202 reform incorporating these concerns. I would like to briefly outline some of the concepts the Association is considering for this reform package.

IDEAS FOR REFORM OF SECTION 202

The most significant problem facing the Section 202 program at this time is its tie-in with the Section 8 program, specifically, the application of fair market rents (FMRs) to control costs. FMRs, originally designed for family housing, have become a guide for both construction and operating costs. Imperfections in FMR methodology, inappropriate application to elderly housing of a system designed for family housing, and blatant manipulation of FMRs to reduce costs have led our members to an assessment of the FMR system as a complete failure. The Association is exploring development of a more appropriate index which would reflect the true cost of constructing and operating elderly housing facilities. To complement a more accurate construction cost guide, AAHA also seeks to reduce the administrative cost of the program by deregulating the construction process. Such a reform, while preserving the quality of the units produced, could result in greater cost-effectiveness by setting an overall cost limit on development, possibly on a per-unit basis, which sponsors would then be free to meet in whatever way best meets their local market needs.

The Association also sees a pressing need to reform the financing mechanism, currently employed in the program. Under current practice, the federal government loans money for development of elderly housing projects and provides rental assistance which is used to amortize the loan. AAHA is considering a variety of financing alternativies which could reduce the federal cost in developing, rehabilitating, and operating elderly housing. For example, it may prove more cost-effective to fund construction of Section 202 facilities on a grant rather than a loan basis, thus reducing interest costs to the federal government. Credit enhancement similar to the new coinsurance programs offered by HUD, such as Section 232 and Section 221(d)(4) mortgage insurance programs, could also be used to tap private sector capital for construction or rehabilitation of units of elderly housing. In recent years, states and local governments have been very active partners in national efforts to house the elderly. They may prove interested in financially participating in further development of Section 202 projects. Finally, greater involvement of the nonprofit community could possibly be stimulated by an application requirement, weighted to reflect fiscal capacity, which rewards both financial contributions and cost-effectiveness.

Additional improvement in the operation of the Section 202 program could be achieved in two areas of administration. HUD's misinterpretation of congressional intent in its implementation of the very low-income occupancy, or targeting, requirement leads to a curious result. By limiting participation in Section 202 to persons with very low-income, HUD is unnecessarily increasing the subsidy cost to the federal government during a period of severe budgetary constraints. AAHA believes that allowing occupancy by a broader income mix of persons with low and moderate incomes who can afford greater participation in housing costs would decrease the per unit federal subsidy cost and allow more elderly households to be assisted with the same funding. Additionally, the Association believes that the Department may need to give an increased emphasis to rehabilitation of existing units. The Urban Homesteading program has proven a cost-effective alternative to new construction in many areas and could provide a valuable model for providing more units of elderly housing.

CONCLUSION

Today, I have presented a number of innovative, non-federal alternatives which our Association is pursuing as part of our nonprofit mission of service to the elderly. We are well aware of our responsibility to explore and develop as many options as possible to meet the challenges in the coming years. However, the need for a continued federal commitment to housing the elderly remains unchanged. The creative financing mechanisms AAHA is promoting only reach so far down on the income scale and can never meet the great demand for affordable, quality housing which exists among the low and moderate income elderly.

In conclusion, AAHA strongly supports continued federal involvement in providing housing for the elderly and urges support for realistic reform which will allow this involvement to continue on a truly efficient and effective basis. Without broader housing choices, the elderly will continue to be forced into inadequate housing or prematurely placed in more costly nursing facilities. The federal government must continue to be an active partner with the nonprofit community and the broader private sector to provide affordable housing designed and managed to meet the unique needs of the elderly. Working together, we can assure older Americans an opportunity to pursue, to the best of their ability, an independent lifestyle enhancing their self-worth, dignity, and quality of life.

Mr. ROYBAL. Thank you, Mr. Goldberg.

The Chair would like to call on Congressman Bonker, who is cochairman of this hearing today, and ask him to be first in questioning the witnesses. Mr. Bonker, will you please proceed?

STATEMENT OF CHAIRMAN DON BONKER

Mr. BONKER. Thank you, Chairman Roybal. It is really a pleasure to join you in convening these hearings, and I want to express my appreciation to the excellent witnesses that have appeared this afternoon. I think all of you ought to be commended for the personal commitment and the fine work of your organizations. I know we are anxious to pose some questions so that you can help us sort through this emerging role of the Federal Government in the area of housing, particularly housing for the elderly.

Mr. Chairman, I have a statement I would like to offer for the record, and also an editorial that appeared in this morning's Washington Post.

Mr. ROYBAL. Without objection that would be included in the record at this point.

[The prepared statement of Chairman Bonker and the Washington Post editorial follow:]

PREPARED STATEMENT OF REPRESENTATIVE DON BONKER, CHAIRMAN OF THE SUBCOMMITTEE ON HOUSING AND CONSUMER INTERESTS HOUSE SELECT COMMITTEE ON AGING

Good afternoon. I am pleased to join my distinguished colleague—Chairman Ed Roybal—in convening today's hearing to more closely examine the housing needs of older Americans. In recent years, housing has been included with health and social services in the search for solutions to address the complex issue of community-based long-term care.

As the number of this nation's older citizens continues to increase, housing programs—and the public policy underlying these programs—have taken on additional significance. Increasing numbers of frail elderly—those over 75 years of age with one or more disabilities—are struggling against almost insurmountable odds to continue to live independently. These individuals are literally "aging in place" in housing projects and private residences throughout this country.

Ironically, as the need becomes more evident, we continue to witness proposals which call for reduced Federal commitment in assisted housing. Several weeks ago, the administration submitted its fiscal year 1987 budget to Congress. Similar to previous budgets, this proposal once again calls for the termination of many HUD programs designed to assist older persons.

Although Congress has consistently rejected such proposals in the past, it may not have the same opportunity this year because of the sequestration process under the Gramm-Rudman-Hollings deficit reduction law. Both these measures threaten to erode the progress we have made over the last 28 years, in the area of elderly housing.

As the chairman of the Subcommittee on Housing and Consumer Interests of this Committee, I would argue that a strong and continued Federal commitment to assisted housing for our low-income and elderly is an absolute necessity. At the same time, I realize that the growing demand for assistance will require more creative housing alternatives, and contributions from other levels of government, as well as the private sector.

The purpose of today's hearing is to continue our on-going inquiry to explore new and innovative ways in which an active public-private partnership might contribute to resolving the impending housing crisis that confronts our elderly.

Obviously, the issues before us today are far more complex than a mere examination of potential housing options for older Americans. The real challenge for public policy involves our continued commitment to enhance the quality of life for our Nation's elderly. Concerted efforts that go beyond piecemeal solutions will be essential.

It is my hope that the hearing today will provide us with some fresh ideas—"A new blueprint"—for the future. I look forward to the comments of our witnesses and their recommendations for actions.

[From the Washington Post, Feb. 25, 1986]

THE PRESIDENT'S HOUSING PROPOSALS

Two Federal departments have housing programs for the poor—Agriculture and Housing and Urban Development. The president proposes in his budget to halt all further commitments through the Agriculture programs and to shift future responsibility for subsidized rural housing to HUD. Then he also proposes to halt all further commitments under the existing HUD programs. They would be replaced by a voucher system. The government would add 50,000 units a year to its subsidized urban and rural housing portfolios combined. That is only a third as many as even in most of the Reagan years so far. For a time in the 1970s the government was adding more than 400,000 units a year.

The President has been trying to cut these housing programs since he took office. His reason is their cost. Thanks largely to the expansion in the 1970s under administrations of both parties, the various HUD expenditures are threatening to become the government's second most expensive welfare program; only Medicaid would be larger. Their cost will be $12 billion next fiscal year if no changes are made in the law; the Agriculture programs will cost an additional $3 billion. By 1991, combined expenditures will be $18 billion. The president would reduce that by a third; and longer-term spending authority by two-thirds.

The President said in his state of the Union address, in urging spending cuts instead of a tax increase, "it's time we reduce the federal budget and left the family budget alone." The problem is that these spending cuts affect family budgets, too. For poor people, housing has become the killer cost. More than half of the "very low-income" families that are the special targets of the government's housing programs now spend more than 40 percent of their incomes for housing; over a third spend more than 50 percent. The subsidized units now in place—over 4 million—help only about a third of these people. At best, congressional experts say the administration's proposed expansion rate for the program in the next five years would keep up with population growth; the level of unmet need would stay the same.

Meanwhile, the President insists as part of tax reform that not a hand be lifted against the mortgage interest deduction (although its value would be reduced by the cuts in tax rates he proposes). The mortgage deduction will save homeowners, who mostly are not poor, an estimated $29.6 billion next fiscal year. The higher a person's income and the larger his house, the larger his subsidy under this provision. Who wants to make the case in these terms—that is fair to cut the poor but not the rich?

The voucher proposal is in several ways a better idea than its suspicious critics in Congress have so far allowed (nor is it that different except in name from the rent supplement program, which has now become the accepted form of aid). But 50,000 new units a year are too few. The problem is that there is no housing policy here, only a budget policy. That is a foolish way to deal with a serious problem.

Mr. BONKER. I would like to just quote briefly from this editorial, because I think it sums up what many of us in the Congress view as happening to policies on assisted housing under this administration.

The editorial notes that the President Reagan's fiscal year 1987 budget proposes to halt all further commitment under the existing HUD programs, and replace them with a voucher system. The editorial goes on to state that the President has been trying to cut these housing programs since he took office. It concludes by noting that housing policy in this country is being driven by budget policy and not by perceived need.

The question for those of us involved with public policy is how can we ensure that elderly citizens live independently and with some comfort and dignity as the Federal Government phases out of its traditional role in providing for Federal aid programs. As the need becomes more evident to many of us, the Federal Government seems to be abandoning its responsibility.

The question is, who is going to pick up the responsibility? Will it be the States? We will be hearing from Governor Dukakis later. Will it be local governments who are strapped now even more severely because we are fazing out revenue sharing and other programs for local governments? Or is it going to private or nonprofit programs, such as those that you represent.

This obviously poses a challenge for all of us. My question essentially involves how our witnesses perceive the future role of the Federal Government.

Mr. Quinn, you stated that the private sector cannot assist the poorest of our families without a strong continued Federal role and commitment. You also made reference to Federal demonstration projects and technical assistance. I am wondering whether it is possible for your organization to make it if the present administration's policies are realized. In other words, if the Feds get out of the business altogether and substitute a voucher policy, how will industry and developers respond?

Archbishop Hannan, I notice the program to which you referred in your statement as 200 units of assisted housing for the elderly.

Archbishop HANNAN. Yes.

Mr. BONKER. That was a cooperative effort with the Federal Government?

Archbishop HANNAN. Right.

Mr. BONKER. You also stated something that I thought was rather interesting. You noted that the church is driven by a commitment to decent, safe, sanitary housing as a basic human right, and this is a shared commitment with the Government of this great country of ours.

The only problem is that the Federal Government is slowing getting out of the commitment. My question is how would your diocese meet human needs for housing if the Reagan policies are adopted by the Congress.

I would like to hear from both the Archbishop and Mr. Quinn.

Mr. QUINN. Well, let me begin by saying that of all the projects that we have been involved in, there is not one that doesn't have some Federal subsidy. We deal with families, as I mentioned, with incomes under $10,000, and there is just no way you are going to make a pro forma work and keep the housing affordable without some Federal subsidy.

Additionally, we work through nonprofit neighborhood groups and every one of those nonprofit neighborhood groups need some help in meeting its operating budget, and in most cases that comes through the community development block grant money, so again, you have got some Federal subsidy in there.

Now, it is true by mobilizing the private sector by looking for resources from churches, from corporations, from foundations, from individuals, we have set up a low-interest loan fund where we can provide a process whereby people with resources can make loans that the principal will be safe, but the interest rate, there will be a give-up on that, and by doing that, we can work to get more private sector money into housing, but still in the final analysis, you need subsidy.

Also, and I would like to make this point, that if the private sector is really being challenged by the Government and by what the Reagan administration has done on cutting back on subsidy, then at least one private sector way of approaching this is through tax incentives.

What we are doing with syndications is taking a device that has been abused by syndications for the wealthy, but we are using it for the poor, for the syndications we have set up protect the poor people so there won't be the kind of displacement that has occurred after 7, or 8, or 9 years.

In fact, at the end of 15 years, the period for the syndication for the partnership, we ensure that that property goes back either to the neighborhood group for continuing low income housing, or it is transferred to the tenant and that tenant becomes a homeowner.

In many cases the groups that we work with serving the elderly who are trying to remain in their homes and have set up programs to keep the elderly in their homes. Again, that group needs some Federal subsidy to help it.

I think we ought to view this as a partnership, not as an opportunity to just turn it over to the private sector and say the private sector can do it.

Additionally, the voucher program does not produce any housing.

Mr. **BONKER**. A voucher system does not produce any housing?

Mr. **QUINN**. It really doesn't, because you can't go into a bank and get financing with a voucher, whereas you could with a 15-year section 8 certificate. It is very easy to do it and you can combine syndication with that and you have absolutely no problem. Even a 5-year section 8 certificate still gives you some leverage, but if you walk in with a voucher, there is no guarantee that that person isn't going to move out the next day and you are back faced with a unit where you are lucky if you can get maybe $200 maximum in rent and still have it affordable for a person.

We try to keep the total housing cost for the people we deal with at less than 40 percent of annual income, so the usual standard was 25 percent and then it was raised to 30 percent. We are talking 40 percent, even going up the scale, and with elderly people it is as high as 50 percent.

So I really stress that even though the private sector should be and is involved, there is this need certainly for continuing subsidy and for continuing tax incentives, such as the provisions of 167(k) and the tax-exempt financing.

Archbishop **HANNAN**. I would like to answer your question too. Very simply, the Government must absolutely provide some assistance otherwise you cannot take care of the poor who need it the most. We have done building for both.

In addition to what I have testified to here, we have constructed homes for those who do not need any subsidy, so we are able to compare what is possible for them, what is not possible for the poor.

But the real difficulty in regard to the voucher system is this: if the Archdiocese were to build according to that voucher system, naturally we would have to meet the expectations of our own people, which means we would have to build a very, very substantial building. But, somebody who wants to take advantage of that voucher system could build right next to me a building that is made of flimsy material. The person with the voucher would be able to save money by going into that flimsy building and I would be left holding a whole building there which nobody would pay for.

So unless they have very, very solid specifications so that everybody has got to build the same kind of a building, it is impossible to do it. So even with using the full faith and credit of the archdiocese, and by the way, our credit is good, we still cannot get, because we have tried to do it, we cannot get buildings and construct them so that the poor can be helped by us. It is simply impossible.

I also would like to point out that in various places in the country, everything is unequal. Where we are the property values are so high because the majority of the territory of New Orleans is compressed between Lake Pontchartrain and the Mississippi River. So our property costs are enormous and somebody could move out to an area, say 50 miles from New Orleans where they are not so expensive, he could undercut us completely and we would be left there with a bankruptcy.

Mr. ROYBAL. Thank you, Mr. Bonker.

The Chair recognizes Mr. Hammerschmidt.

STATEMENT OF REPRESENTATIVE JOHN PAUL HAMMERSCHMIDT

Mr. HAMMERSCHMIDT. Thank you very much, Mr. Chairman.

I want to say, too, that it is very timely for our committee to study the proposals that provide housing for older families without the use of Federal funds, so I want to commend you, Chairman Roybal, as well as Mr. Bonker for having this joint hearing.

I listen with great interest to our very professional witnesses, and they are not only good witnesses before us, but I am sure they are good witnesses as they do their good work out in the real world.

I am not going to ask any questions, but I want to comment on something because it just occurred over on the House floor. We just voted on a bill which was handled by Mr. Shelby of Alabama, the chairman and the ranking member of the Veterans' Affairs, Subcommittee on Housing and Memorial Affairs Mr. Smith of New Jersey, on Government-guaranteed loans for veterans. The reason we had that bill on the floor was because interest rates have come down dramatically. The CBO and the OMB had estimated the cap needed on Government-guaranteed loans at $12 billion; they missed it by $6 billion. We had to raise the cap to $18.2 billion.

I only mention the fact that interest rates are coming down because interest rates usually are closely related to the housing inventory of this nation. I think that a great contribution has been made in that respect, at least, by this administration's economic policy. Now, we may differ as to how they approach the Government's responsibility for low-income housing and how deeply they should be involved, but nevertheless, we are looking for new options, and your appearance here today is very helpful to us.

I have another meeting at 2 o'clock, so I am going to have to leave this committee, but we very much appreciate your appearing before us today.

Mr. Chairman, I would like to put a statement in the record.

Mr. ROYBAL. All right. Without objection it will be included in the record at this point.

[The prepared statement of Mr. Hammerschmidt follows:]

PREPARED STATEMENT OF REPRESENTATIVE JOHN PAUL HAMMERSCHMIDT

Mr. Chairman, it is timely for our committee to study proposals that provide housing for older families without the use of federal funds. I commend the chairman of the full committee and the housing subcommittee for convening this joint hearing.

The administration and Congress have been reordering their priorities and focusing their primary efforts on reducing the deficit. Therefore, in addition to federal appropriations, we will have to obtain funds from other sources to continue housing construction and substantial rehabilitation for low-income families.

As the chairman pointed out, the reduction in federally assisted housing since 1980 has been sizeable—68 percent. But something else very significant has happened since 1980 that we shouldn't lose sight of—inflation has dropped 9 percent, from 12.8 to 3.8 percent. Everyone can agree that this improves the economic well being of all 28 million older Americans. But more needs to be done for low-income older families.

According to the 1983 National Annual Housing Survey, about 17 percent of the elderly are still paying more for rent than they can afford, and 10 percent live in inadequate units. These people cannot wait until we balance the budget to obtain decent, affordable housing. We are fortunate that during this time of federal economic restraint, other segments of our society are responding by increasing their efforts to develop housing for lower income older families. State and local governments, charities, churches, foundations, and corporations are using very creative methods to finance new construction and rehabilitate existing housing.

I want to thank our distinguished witnesses for being here today. I hope that hearing in more detail how their projects are helping to meet the housing needs of older persons will encourage others to replicate their innovative ventures.

Mr. ROYBAL. Thank you very much.

Mr. Volkmer.

Mr. VOLKMER. No questions.

Mr. ROYBAL. Mr. Smith.

Mr. SMITH. Thank you, Mr. Chairman.

Bishop Hannan, from the data that I have seen, congregate housing has been enormously successful. This pilot program, has for many, pushed back the day when they would have had to enter nursing homes and it has also helped provide proper nutrition in an atmosphere area where people can socialize and keep that all important contact with their friends.

We have a pilot program in the city of Trenton that I have been out to visit on at least four occasions, and the only time I have ever really heard a complaint was once when the dumplings were burnt. The only complaint was something as miniscule as that! The residents are obviously very, very happy with the services they are receiving.

I wonder, Bishop Hannan, if you could elaborate for this committee what the need is in the archdiocese in New Orleans and if you could in any way project that for the rest of the country in the area of congregate housing?

Archbishop HANNAN. Thank you very much. I would be delighted to. First of all, let me tell you that we are having very many elderly people from the rest of the country move down to the warmer climate, and so we have even had applications from Maine and so forth, so we are acquainted with their needs.

The reason why congregate housing in our opinion is very necessary and very good is this: first of all, it does provide good dietetics and care for those who do not need and do not want to be in a nursing home. And the costs in a nursing home are tremendous compared to the cost of intermediate care.

Let me give you just one example. In all nursing homes you have got to have a certain number of R.N.'s, registered nurses. Most nurses do not wish to work in nursing homes for the elderly because of the terminal nature of geriatrics.

Nobody recovers from being old, and naturally, then, the nursing homes must compete with each other, and for instance, in one place in New Orleans, the bonus that is paid to R.N.'s is a new car every 2 years. And I have seen ads, for instance in Florida, where they will pay a registered nurse who is willing to serve the midnight shift, that is from 11 at night to 7 in the morning, $38,000 a year.

Now, it is absolutely impossible therefore to give good nursing care that is demanded by the State's regulations at anything like a reasonable cost, whereas you can give congregate housing, which by the way, because it does bring in socialization it is much more desired by the people than nursing care and they are happier. It is very much less expensive, and everybody profits from it. I can't understand why the Government doesn't have more funds for intermediate care because it would save us an enormous amount of money.

Mr. SMITH. Mr. Goldberg, can you comment on congregate housing as well? I noticed on page 7 of your written statement that it is one of your legislative priorities.

Mr. GOLDBERG. One of our priorities is that the Government continue good programs. Congregate housing is a program which was enacted by Congress to provide some additional services in housing facilities. It is extraordinarily cost-effective and does certain things like just simply providing some assistance where a person may be frail, may be elderly. This assistance is in a number of areas, such as a little help with taking medication. Perhaps there is a special social program. Maybe it is assistance with bathing. To help forestall the possibility of that person requiring further institutional care, congregate facilities can provide these interventions in an independent housing situation and provide a great deal of assistance in keeping that person as independent as possible.

Mr. SMITH. Thank you. One final question, Mr. Chairman.

Mr. Quinn, can you give us some idea why HUD's office on urban rehabilitation has not worked closely with nonprofit groups?

Mr. QUINN. I am not really sure. It would seem to be that HUD would want to do this and we have got some of our people talking with their office and we hope that we can start a collaboration.

Mr. SMITH. Do you think that might change?

Mr. QUINN. I hope so.

Mr. SMITH. OK. Thank you very much.

Mr. ROYBAL. Thank you, Mr. Smith.

Archbishop Hannan, in your testimony, you mentioned the growing problem of homelessness. I find that to be a great problem in California. I suppose it is the same throughout the country.

What would you say are the major contributing factors to homelessness?

Archbishop HANNAN. First of all, you have to remember that many people live much longer today than they did before. All of the actuarial figures that they used for Social Security and so forth are really not valid today. That is one.

Another difficulty is the enormous increase in the cost of medical care. Now, people who normally before were taken care of in their families no longer are able to get that support. Very many of them, therefore, go to what they think is the promised land, that is, either to the southwest, California, or they think just because it is good weather, that that is going to take care of them. And often they flee from one situation which they think is bad and come to a situation where it is worse.

We have had very many people come to the South thinking that the basic petroleum industry would remain the same, only to find out that the bottom fell out of it. And naturally, these people are not very mobile. Many of them are of such an age that they can't go searching for jobs, and since they went to a place where they thought they were going to get a job and didn't get it, they become homeless people.

We have found that there has been a tremendous increase in that in the last 3 years. We have shelters for what we call transient men and women who have come down to the South in order to get jobs and who haven't gotten jobs. We didn't need a transient home before for them, but we have in the last 3 years. And we have noticed, for instance, that we used to feed about 300 to 350 a day. That now has gone up normally to about 800 a day. And the difference is homeless people.

Mr. QUINN. Mr. Chairman, can I comment on that?

Mr. ROYBAL. Will you please, Mr. Quinn.

Mr. QUINN. We found that again, even though our programs aren't directed specifically to the homeless, we have had estimates of up to 30 percent of the homeless problem is being caused by the lack of affordable housing, that people are out on the street because they just can't find a place that they can afford, and in some cases, this is true of families.

The Baltimore Sun in its Sunday edition two Sundays ago had a picture of a woman and her child that were homeless because they couldn't afford a place to live.

So it is becoming more than what we once thought was, the typical homeless person. Now we have families who just can't find a place. The other part of that, families are living in substandard housing, in some cases with the heat shut off and cannot complain, because they are afraid if they lose that place there is no place to go.

Mr. ROYBAL. Elderly housing also means congregate care, nursing homes, shared housing, accessory apartments, and all those things which increase the range of housing alternatives housing available to individuals. But there are not enough of these suitable housing alternatives in existence.

Now we find that there is a possibility or at least there is a recommendation that section 202 not be funded after this fiscal year. What is going to happen to these people if this is not done?

Archbishop HANNAN. I don't think all of the housing that has been provided—I mean not only the archdiocese but all of those organizations which have homes or provide shelter for people—can take care of more than one-third of the need in whole area of New Orleans. That means that two-thirds are simply not being cared for or they have extremely miserable living conditions and unless the Federal Government provides some kind of subsidy to organizations which are willing to build, we will continue to have an increase of that.

The local people, that is the local municipalities and the local States, simply cannot provide the funds to take care of the needed housing, and that is the reason why in many localities they did not enforce the housing code. Because if they enforce the housing code, they simply move the people from bad conditions to worse. They simply put them out on the street.

Mr. ROYBAL. Well, the truth of the matter is that the conditions one finds in a lot of this housing are not good at all.

Archbishop HANNAN. Absolutely.

Mr. ROYBAL. You said in your testimony, bishop, that the reductions in section 202 may very well preclude any further developments in housing on the part of the Catholic Charities and member organizations?

Archbishop HANNAN. Yes, sir, because it is impossible for us to build these facilities; we simply do not have the finances. It is not simply the original cost. It is the maintenance. For instance, in our archdiocese, the cost was over $90 million for the housing that we built. But the operational costs each year are $23 million, and naturally we could not possibly sustain that kind of a cost. It must be done by the Federal Government, and by the way, it does benefit the city very much.

Taking care of the elderly does help the economy enormously. First of all, it renovates a neighborhood, because elderly people don't break up their housing, so every place that we have built a home for elderly, it has improved the neighborhood. People have renovated their houses because they know they are going to have good neighbors.

Second, it does give work to the tradesmen and to industry in that neighborhood and it provides very, very substantial building costs and, therefore, helps the construction industry.

We also notice that we hire so many people that it is a real industry. For instance, just in our own small operation, which does have over 3,300 units, we do hire 7,500 people; 5,300 are permanent, 2,200 are part time. So taking care of the elderly is good industry, it's good social work too.

Mr. ROYBAL. If we follow your statement to its ultimate conclusion it has two results. If reductions in section 202 actually come about and your organization will have to curtail housing——

Archbishop HANNAN. We would have to stop it.

Mr. ROYBAL. Stop it altogether?

Archbishop HANNAN. Right.

Mr. ROYBAL. How many people would that affect?

Archbishop HANNAN. Well, we have for every person we care for, a waiting list of five. That is what it means.

Mr. ROYBAL. I was told in Los Angeles the waiting list was more than that. It was a waiting list of nine. But let's take five as an average. How many people throughout the country do you think would be affected?

Archbishop HANNAN. It would certainly go way into the millions. I would say as a guess in our country, we would need housing for at least 15 million people.

Mr. ROYBAL. Which means that 15 million people will be——

Archbishop HANNAN. In substandard housing, or none at all. Out in the park, so to speak.

Mr. ROYBAL. Now, I would like to determine if there is a difference between your position and that of Mr. Goldberg and Mr. Quinn. Mr. Goldberg said that, "the association also sees a pressing need to reform the financing mechanism currently employed in the program." I assume that he thinks that in the event section 202 continues to be funded that what is needed is for the Federal Government to loan money for the development of elderly housing and then provide the rental assistance which is used to amortize the loan. Is that correct, Mr. Goldberg?

Mr. GOLDBERG. Well, we are extraordinarily supportive of the section 202 program. There is no question. Reform is one way in which we can get, I guess they say, more bang for the dollar and more production of housing in this country for the limited dollars available. We are basically talking about the circular flow of dollars in the section 202 program as it is currently structured.

The Federal Government loans the money to the nonprofit sponsor of the facility. The Federal Government then provides money to the facilities for payment of the rents, which in turn the facility then sends back to the Federal Government for the payment of the debt service on the loan. What it amounts to is a constant circular flow of money coming and going, coming and going.

Mr. ROYBAL. But you also said following that particular statement that it may prove more cost-effective to consider funding construction of section 202 facilities on a grant, rather than a loan basis.

Mr. GOLDBERG. That is correct, and one of the areas we feel is worth consideration is rather than advancing the loan, make it a grant.

Mr. ROYBAL. Well, a grant is a gift, is it not?

Mr. GOLDBERG. That is correct, but, in the current program, the loan is similar to a grant. The Federal Government makes a loan to the sponsor and then the Federal Government pays the sponsor to pay the loan back to the Federal Government.

Mr. ROYBAL. Would a grant build housing faster than the loan?

Mr. GOLDBERG. A grant would perhaps cut some of the administrative costs and delay associated with the current program.

Mr. ROYBAL. But a grant would not be returned to the Federal Government.

Mr. GOLDBERG. It would be returned by the services which are provided to the elderly.

Mr. ROYBAL. Yes; but not in the payment of that grant.

Mr. GOLDBERG. The grant would be a grant and there would be no debt service.

Mr. ROYBAL. Can you explain why that is a better way of financing?

Mr. GOLDBERG. The concern we would have here is this tremendously inefficient, circular flow of funds. A grant approach might relieve some of the cost of loans made by the Federal Government, because both administrative and interest costs would be cut. We feel there is a lot of administrative costs associated with a circular flow of money where a loan is made and then money is advanced through section 8 to cover rents which the sponsor gets and then uses to pay back the Federal Government. It seems like it is a more direct course and is more understandable and efficient rather than all of the flow of the money going in a circular pattern.

I do want to note very clearly that we are extraordinarily supportive of the section 202 program. It has served tremendous numbers of elderly and is probably one of the most responsive housing programs.

The other concern you expressed and that one of the other speakers noted is the need for increased emphasis also, whether it is the 202 program or other housing programs or rehabilitation. I am aware that in this country there are perhaps 1,700 public housing facilities currently vacant, completely vacant. More emphasis on using existing housing which is uninhabitable at this point, increases our ability to provide housing to the low-income individuals at a lower cost.

Mr. ROYBAL. All right, then. Let me ask both you and Mr. Quinn the same question.

What effect would the President's 1987 budget proposal have on the availability of suitable housing alternatives?

Mr. GOLDBERG. I think it would be devastating. It sets a course which literally almost erases a 50-year commitment of the Federal Government to provide assistance to low-income elderly in this country and to low-income people in general.

The administration's budget says we will provide 50,000 vouchers. Doesn't produce one facility to serve people whatsoever. It doesn't produce the resources for the facilities which are tremendously lacking at this point in time.

The President's budget also cuts the program in half. We are currently producing approximately 100,000 units of housing for the elderly and other low-income individuals in our country. The President seeks to cancel that out and says we will provide 50,000 vouchers, literally half the program, and a program which has been halved several times already.

Archbishop HANNAN. May I point out one thing. From the viewpoint of administration and the care of the people in a facility, to get a good efficient home for elderly, you should have at least 100 units, otherwise your administrative costs can be high. It is absolutely impossible to administer a home well and efficiently when you have only 50, 40, something like that. We found out that it is much better to administer a home for 150. There are more social opportunities for the elderly people in homes of this size. But also, the costs go down the more units you have.

And that program which you just referred to, 50,000 vouchers throughout the United States, that would mean there would be so few vouchers for each State that each county or each civil parish would have so few that it couldn't use them. It's useless.

Mr. ROYBAL. Well, Mr. Quinn. Mr. Hannan has estimated that in the neighborhood of 15 million people would be affected if the 1987 proposal made by the President becomes law. Do you agree with that estimate?

Mr. QUINN. I think the estimates vary, but in terms of housing units, I have seen the National Association of Home Builder estimates of over 11 million housing units. The President's Commission on Housing estimated that there were well over 1 million of very substandard, very deteriorated, having more than two of the major systems not functioning. So, you can certainly come up with numbers that differ widely, but anyone's estimate, the numbers are very substantial.

Mr. ROYBAL. Can we agree then that millions would be affected?

Mr. Quinn. Oh, I think it is well over a million. That is just the housing that is in the worse possible shape that requires very substantial rehabilitation, but then there is housing that certainly needs work that is substandard, so I would say the Archbishop's estimate of 15 million people is probably reasonable. Because if we were to say 5 to 7 million housing units, then you can easily project 15 million people that are affected.

Mr. Roybal. When I heard 15 million people would be affected, Bishop Hannan, I thought you were very, very fair. I think the number would exceed 15 million, so we find that the situation with regard to housing as of this moment doesn't look that bright.

Archbishop Hannan. I firmly believe that.

Mr. Quinn. And we are talking about the lowest income people, too. I mean if you look at people up at the more moderate income levels, there is also a need for affordable housing, but we are just focusing on the very low income and then you are talking 10 to 15, 20 million people.

Mr. Roybal. I have many questions I would like to ask each and every one of you. What I will probably do is submit the questions in writing and ask that you answer them. I will try to cut them down to two questions per witness so you won't have to spend the rest of the day and evening answering these questions. I do that because of the shortness of time. The next witness is limited in the time that he can spend before the committee, and we, the members of the committee, must also be elsewhere.

I want to thank you, Bishop Hannan, Mr. Quinn, Mr. Goldberg, for the excellent testimony you have given this afternoon.

Our next witness is the Governor of one of our great States who has done an excellent job of working to achieve the promise of the Federal Housing Act of 1949. That is, the goal of a decent home and suitable living environment for every American. I look forward to learning more about the problems that face the Nation and ask Governor Dukakis to proceed in any manner he may desire.

STATEMENT OF HON. MICHAEL S. DUKAKIS, GOVERNOR, COMMONWEALTH OF MASSACHUSETTS, ACCOMPANIED BY AMY ANTHONY, SECRETARY OF COMMUNITY DEVELOPMENT

Governor Dukakis. Thank you, Mr. Chairman. It is a great pleasure to be with you and I am delighted you are having these hearings.

With me is Amy Anthony, our secretary of community development in Massachusetts. It is her responsibility to drive this housing program of ours, in addition to neighborhood and community revitalization and a number of the other responsibilities of her cabinet office.

Let me present to you what I hope will be a relatively brief statement and then we are here, obviously, to answer your questions and to respond to your concerns. You pointed out in introducing me that the Housing Act of 1949 set as a national goal a decent home and suitable living environment for every American.

It is important to remember that at that point in time Senator Robert Taft of Ohio was one of the principal cosponsors of that legislation. This has never been a partisan issue. It is an issue which until recently has united all Americans. That this notion of a decent home and a suitable living environment is meant for every American citizen is something which I have thought, until these past few years, was really no longer debatable in this country.

Now, in my State, as you know, we have been blessed, thanks to very aggressive State economic development programs and a number of other assets, with a booming economy. This has brought our unemployment rate down to below 4 percent.

The other side of that good fortune, however, is that our housing market has been transformed into something that looks a lot more like the one that you had in California just a few years ago, and perhaps still have.

We have had a 37-percent increase in the Boston area in the price of single-family homes in 1985 alone. The median housing price for a single family in the Boston metropolitan area is now $143,000. We have a 2-percent vacancy rate, which not only limits housing options, but helps explain rent increases of 30 to 50 percent in the past few years. The average cost for residential lots in the greater Boston area is now the highest in the Nation.

But the shortage of affordable housing as you have just heard, and as you well know, is not uniquely a Massachusetts challenge, not by a long shot.

Across the Nation a similar situation prevails. Since 1980, the price of the average single-family home has increased more than 30 percent. Between 1980 and 1984 the cost of renting rose for the average family by 28 percent. The quality of much of our public and private housing starts is deteriorating; foreclosures in some parts of this country are mounting. The numbers of homeless people multiply in my State, even with our economic good fortune, as well as yours, and young families looking to buy their first home are seeing the greatest of the American dream slip away.

Meanwhile in the face of these concerns, and what the resulting economic burden may mean for Americans, the Federal Government is virtually withdrawing from the field. All of you know what that has meant in terms of budgetary authority and in terms of the resources which have been committed here in Washington to deal with our housing problems.

In my State, however, we are still very strongly committed to the spirit of the goals of the Housing Act of 1949, and the investment in the lives of our people that it enshrines. We believe that it is only by investing in our strengths that we can remain strong, and one of our strengths is good and decent and affordable housing for all of our citizens.

We have worked very hard these past few years to create a commonwealth in which there is genuine economic opportunity for all of our citizens. We believe that every citizen, whatever his or her race, or ethnic origin, or economic status, deserves the opportunity to contribute fully to our society, and part of that opportunity means the chance to realize the promise of the Housing Act of 1949; the promise of decent shelter for all Americans.

It is with this promise in mind that we have built our housing agenda in Massachusetts. We have, for many years, had an active State role in insuring affordable housing for our citizens. In that sense, I think we are somewhat unique among the States.

We have demonstrated a commitment not only for low- and moderate-income families, the handicapped, the elderly, and the homeless, but now increasingly for middle-income citizens of our State who face urgent problems in finding affordable housing.

Recently we established something we call the Massachusetts Housing Partnership, to make even more progress toward our goal of affordable housing for all. It is a broad-based effort created to address the State's housing needs through joint public-private activity with a strong base of local housing partnerships.

The goal of the partnership is to address the critical shortage of affordable housing faced by the Commonwealth on four very important fronts. The first of these is the reclamation of abandoned buildings and vacant urban lots for housing. We have made the rehabilitation of every single salvageable unit of abandoned housing in our State one of our most important goals.

The second goal is the production of new housing for rental and home ownership. The third, is to increase the local commitment to more housing. And finally, we are focusing special attention on the housing needs of at-risk populations, including, of course, the elderly.

The partnership is made up of leaders from many different quarters of the Massachusetts community: lending institutions, community groups, organized labor, the real estate industry, State and local governments, the business community, and so on. The partnership is actively encouraging local partnerships in dozens of communities. From these partnerships, we are setting the stage for the construction or rehabilitation of thousands of units of decent and affordable housing.

I am proud to report that earlier today the National Governors' Association unanimously endorsed a recommendation that other States establish similar housing partnerships to meet the needs of their citizens.

We believe that the Massachusetts Housing Partnership is a model worthy of at least serious consideration in other States, and we are pleased that the Nation's Governors share that view.

I am not going to catalog the entire array of home ownership, rental assistance, and innovative housing finance programs that are currently underway in my State. Let me just discuss four activities that are currently being pursued by the partnership.

The most recent one is the one I announced last month, our home ownership opportunity program, an effort to make home ownership a reality for at least 2,500 families in my State. It will provide $220 million for new homes which will be sold at 30 to 40 percent below market value. It is the largest public program ever initiated, at least in my mind, to build private market housing geared to moderate-income households, and is one of the only State-supported programs of this kind in the Nation.

It will demonstrate how much we can accomplish when State and local governments, working with a first-rate network of housing advocates and builders turn challenge into opportunity.

We have also redoubled our needs to meet the housing needs of our elderly and low-income families. We have now, Mr. Chairman, some 32,000 units of State-assisted housing for the elderly, some

3,000 of which we have built or rehabilitated in the last 3 years alone.

In an attempt to fill the gap left by the demise of the section 8 construction program, we have developed what we call the State housing assistance for rental reduction program, or SHARP. In essence, the SHARP Program provides the developer with a reduced-cost mortgage loan for rental housing through the Massachusetts. Housing Finance Agency. SHARP funds are then used to further reduce the interest rate on the loan to make the project economically viable.

In exchange for that, the developer agrees that 25 percent of the units in the new SHARP housing be reserved for low-income people. I can tell you that it has been the SHARP Program that has gotten a very successful mixed-income program going again in Massachusetts. During the last 2 years alone, SHARP has produced over 5,000 units of rental housing sponsored both by private and nonprofit community-based developers.

A further innovation to support the private housing market is our housing abandonment program. I said a little earlier that one of our goals is to make sure that over the course of the next 3 or 4 years we will literally rehabilitate every single salvageable abandoned housing unit in the State. In order to do that, we have approved legislation which speeds up the tax title process and which makes it possible for local communities to get tax title properties and publicly owned properties in the hands of people for rehabilitation, occupation, and ownership. We are excited about that and we are going to be moving as quickly as we can to create what we believe will be some 3,000 new or rehabilitated units of housing.

And finally, I am sure you have a particular interest in our State's elderly public housing program. I have already talked about how much of that we have. It represents a commitment of over $700 million in State resources. Over 200 of our 351 cities and towns today have public housing for the elderly; State-funded housing for the elderly.

One of our major innovations in that program is congregate housing, something that you just have been discussing with the witnesses that were here before me. Congregate housing, as I think you know, provides a shared living environment for elders who are functionally limited or lonely but who do not need the health care or supervision of an institution.

Elders in congregate housing have their own bedroom and they share the livingroom, diningroom, kitchen facilities with each of the congregate units serving between approximately 4 and 12 elders. We have 200 units of this specialized housing now. We expect another 600 units will be available within the next 2 years and I recently signed a record State housing bond issue that will finance some 600 to 700 additional units of congregate housing in the course of the next 3 to 4 years.

Congregate housing is very important as part of our housing mix in Massachusetts. The program helps elders to maintain their independence with supportive home care services, and encourages them to achieve what we are trying to achieve for older citizens in our State: Maximum independence within their communities and within their neighborhoods.

We are very proud, obviously, of what we have done, but providing good housing at affordable prices, Mr. Chairman, is not simply a State or local responsibility. It is an important part of the American dream. It is a commitment that we made as a nation some 50 years ago. It is a responsibility which we believe should be shared by Washington, by State capitals, and by local initiative.

My hope is that the example of States like Massachusetts cannot only inspire other States to do likewise, but can reassert the commitment to decent housing at affordable costs, which has been part of the American scene for a long time.

Let me simply conclude by saying to you that the Federal withdrawal in this area is not only making it virtually impossible for us to get on with the construction of new housing, but has even forced us to put up State funds in order to rehabilitate existing federally financed public housing in our State.

In essence, even federally financed public housing now is no longer receiving sufficient Federal funds for modernization and rehabilitation. Therefore, as part of the new State housing bond issue which I signed just a few months ago, some $35 million of State funds, which could have otherwise been used to provide even more housing for the elderly and for families of low and moderate income, is now going to be committed to deteriorating Federal units. While clearly a Federal responsibility, we believe these units are an important part of our housing stock, and therefore, something we must take very seriously. Hence, State funds for the first time in our history are going to have to be used to modernize, improve, and rehabilitate Federal public housing.

Well, if we have to do that, we will do it as best we can. However, it is a rather sad testimonial to what has happened to that commitment we all made as a nation, way back in 1949, and even before that during the New Deal.

I would be happy to respond to any questions you have as would Secretary Anthony who is one of our best housing people and is a very effective cabinet secretary.

[The prepared statement of Mr. Dukakis follows:]

TESTIMONY OF MICHAEL S. DUKAKIS, GOVERNOR, COMMONWEALTH OF MASSACHUSETTS

"A decent home and suitable living environment for every American," that is the goal of national housing policy and has been since the Housing Act of 1949.

Yet for millions of Americans a decent home is still a distant dream. The promise of 36 years ago, for many of our citizens, is falling further and further from their grasp.

In my home state of Massachusetts, a booming economy has brought with it: A 37% increase in the Boston area for a single family home in 1985, the largest increase in the country; a 2% vacancy rate in many communities which not only limits housing options but helps explain rent increases of 30-47% in the last few years; an average cost for residential lots in the greater Boston area that is the highest in the nation.

But, the shortage of affordable housing is not uniquely a Massachusetts challenge—as you well know—not by a long shot.

Across the nation, a similar situation prevails. Since 1980 the price of the average single family home has increased by more than 30%. Between 1980 and 1984 the cost of renting for the average family rose by 28%. The quality of public and private housing stock is deteriorating, foreclosures are mounting, the numbers of homeless people multiply, and young families—looking to buy their first home—are seeing that greatest of American dreams slip away.

And in the face of these concerns, and the resulting economic burden they mean for Americans, the Federal government has undertaken a massive disinvestment in housing.

Since 1981 budget authority to support housing has plummetted from $26 billion in 1980 to just under $10 billion in 1985. Furthermore, if the President's budget is adopted, HUD supported housing programs will dwindle to a $2 billion—a mere 7% of the Federal commitment just six years ago.

The historic role of Washington in leading the public effort to make affordable housing available to the nation's citizens has been decisively abandoned. Take just one example: In fiscal year 1979 the Federal government added 15,300 units to our low income housing stock. In fiscal year 1985 the Federal government added only 4,800 units of housing for these same people.

In Massachusetts we are still committed to the spirit of the Housing Act of 1949 and the investment in the lives of our people that it enshrines. We believe that it is only by investing in our strengths that we can remain strong.

In Massachusetts, we believe in creating opportunity for all our citizens. We believe that regardless of race or ethnic origin, or how much money you make, each citizen deserves the opportunity to contribute fully to our society. And part of that opportunity means the chance to realize the promise of the Housing Act of 1949—the promise of decent shelter.

It is with this promise in mind and the abandoned promises of the Federal government, against this backdrop of systematic Federal withdrawal, that our housing agenda in Massachusetts must be examined. Massachusetts has a long tradition of commitment to an active state role in ensuring affordable housing for the Commonwealth's citizens. We have demonstrated that commitment, not only for low income families, the handicapped, the elderly and the homeless, but also for the middle income residents of our state, who face urgent problems in finding affordable housing.

Recently in my state we established the Massachusetts Housing Partnership to further our progress toward our goal of affordable housing for all. It is a broad based effort created to address the states' housing needs through joint public-private activity with a strong base of local partnerships.

The goal of the Massachusetts Housing Partnership is to address the critical shortage of affordable housing faced by the Commonwealth on four fronts: Reclamation of abandoned buildings and vacant urban lots for housing; new production programs for rental and homeownership; increase of local commitment to and capacity for reasonable residential growth; and focused attention on the housing needs of "at risk" populations, including the elderly.

The Massachusetts Housing Partnership is made up of leaders from many different segments of the Massachusetts community: lending institutions, community groups, the real estate industry, state and local governments, and the business community.

The Partnership has served as a working group from which to generate and encourage specific local partnerships. And from this partnership we have developed new initiatives to refocus existing state resources and create new programs to meet the changing conditions in our state.

I am proud to report that earlier today the National Governors' Association went on record to unanimously endorse a recommendation that other states establish a similar joint public/private partnership approach to meeting the housing needs of their citizens. We believe that the Massachusetts Housing Partnership is a model worthy of serious consideration in every state. And, we are pleased that the nation's Governors share that view.

I will not catalogue the entire array of homeownership, rental assistance, and innovative housing finance activities currently underway in Massachusetts. Rather, I will discuss just four activities we are pursuing with the Massachusetts Housing Partnership.

The most recent is one I announced last month in my State of the State message—the Homeownership Opportunity Program—an effort to make the dream of homeownership a reality for 2,500 families in my state. It will provide $220 million to build new homes which will be sold at 30% to 40% below market value. It is the largest public program ever initiated in Massachusetts to build private market housing geared to moderate income households and is one of the only state supported programs of its kind in the nation. This new program will demonstrate how much can be accomplished when state and local governments, and the public and private sectors, work together to turn challenge into opportunity.

In this era of federal disinvestment in housing, Massachusetts has also re-doubled its efforts to meet the housing needs of our elderly and low income families.

In an attempt to fill the gap left in the private housing production market with the demise of the Section 8 construction program, we initiated the State housing Assistance for Rental Production program—or SHARP. In essence, this program provides a developer with a reduced cost mortgage loan for rental housing and assistance under SHARP to further reduce the interest rate on the loan to make the project economically viable.

The SHARP program, with a requirement that 25% of the units be reserved for low income people, has made it possible to get production going again in Massachusetts.

During the last two years SHARP has produced 5,880 units of rental housing sponsored both by private and community based developers.

A further innovation to support the private housing market is our Housing Abandonment Program. To facilitate the salvage of abandoned housing legislation was enacted to reduce back taxes on such property to a new owner seeking to rehabilitate it. The potential of this example of partnership is obvious. We estimate that more than 3,000 new housing units could be created from salvageable vacant buildings and the potential for new construction on vacant lots is far in excess of that number.

And, finally, of particular interest to this Committee may be the states' elderly public housing program. It consists of 32,000 units of state funded housing and represents a commitment of over $700 million in state resources in addition to annual operating funds. Over 200 of the Commonwealth's 351 cities and towns have state funded elderly housing.

A major innovation in the states' elderly public housing programs is our congregate housing initiative. Congregate housing, in the Massachusetts approach, provides a shared living environment for elders who are functionally limited or lonely but who do not need the health care or supervision of an institution. Elders in congregate housing have their own bedroom and the share livingroom, dining room and kitchen facilities, with each unit serving between four and twelve elders.

We have 200 units of this specialized housing now; another 600 units will be available in the next two years; and I recently signed a bond issue that will finance an additional 600-700 units in the near future.

Our congregate housing initiative helps elders maintain an independent lifestyle with supportive home care services for those who need them. Most importantly, it encourages people to care for one another without eliminating their privacy or independence.

Despite all of the benefits the Massachusetts Housing Partnership brings to our citizens, without the assistance we have received from Washington our struggle to meet the housing needs of our people is an uphill battle and a frustrating one. We need an active Federal partner providing assistance to renters, capital for new construction, and housing finance that helps make homeownership an option for our families. We cannot do it alone.

We need, as the Governors stated in their policy on this issue, an aggressive private/public partnership in this vital area of investment in the quality of American life. And, the Federal government must fully participate in this partnership.

Only with such a commitment can we make real, the goal your predecessors in the Congress established 36 years ago—"A decent home and suitable living environment for every American".

Mr. ROYBAL. Thank you, Governor. I would like to welcome your expert assistant, Secretary Anthony, to this committee. We will be asking some questions that we hope together you will be able to answer. What I am concerned about is that some of the statistics you provided this committee are most alarming.

For example, you said that since 1981, the budget authority was then $26 billion and now is under $10 billion, which is just 4 years later.

Governor DUKAKIS. And scheduled, as you know, Mr. Chairman, to go substantially below that.

Mr. ROYBAL. To go substantially below that.

Governor DUKAKIS. That's right.

Mr. ROYBAL. Then you go on to say that if the President's budget is adopted, HUD-supported housing programs will dwindle to a mere 7 percent of the Federal commitment just 6 years ago.

Governor DUKAKIS. That is correct.

Mr. ROYBAL. So, what I am interpreting is that 93 percent of that commitment is gone.

Governor DUKAKIS. That is right.

Mr. ROYBAL. And you also go on to say that the historic role of Washington in leading the public effort to make affordable housing available to the Nation's citizens, has been decisively abandoned. In fiscal year 1979, the Federal Government added 15,300 units to our low-income housing stock. This is just the low income.

Governor DUKAKIS. Right, in Massachusetts only.

Mr. ROYBAL. It has nothing to do with other housing units that have been built throughout the country, but in fiscal year 1985, the Federal Government added only 4,800 units to house these same people. There is a great deal of difference between 15,300 and 4,800 units, and now there is the budgetary recommendation that 202 be discontinued altogether.

Governor DUKAKIS. Mr. Chairman, it is even worse than that. Amy can fill you in on the details of this, but as a result of the administrative action by HUD within the past month, the housing certificates, which we expected to use to fill the low-income component of our SHARP Program, have now had the maximum rent reduced on them by HUD, at a time when rents in my State are skyrocketing. Actually HUD has cut the allowable maximum rent for which these certificates are eligible.

So, even the low-income component of our SHARP projects, which we have had great cooperation on from the private sector and the nonprofit sector are now threatened and we are doing our best with the help of many of you to try to reverse that administrative action. But that further exacerbates what is already a very serious problem for us.

Mr. ROYBAL. Can the housing needs of the poorest of our senior citizens be adequately met without a continued strong Federal partnership?

Governor DUKAKIS. I don't see how they can, Mr. Chairman. We happen to have the good fortune at this point in Massachusetts in enjoying in what is probably the strongest State economy in the country, we are enjoying good strong revenue growth, and we have a State legislature which historically and today is very strongly committed to an active State role in housing, but we still have a homelessness problem even in my State. And we have done as much or more than any State in the country. We have some 50 or 60 shelters now as opposed to two just 2 or 3 years ago. We have built, and rehabilitated thousands of housing units with the State resources, but even in the face of all of this we are not doing what we should be doing, or what we used to be doing.

And in most of the other States where there simply is no State financial participation and where frankly there are not the resources to do it, I assume that there has been no expansion of any kind for all practical purposes, in housing for low- and moderate-income families and for the elderly.

Mr. ROYBAL. We are told constantly that what we should do is transfer that responsibility from the Federal Government to the States. Do you believe that the States can handle the tremendous problem of housing?

Governor DUKAKIS. If you give us some resources to do it; yes.

Mr. ROYBAL. Without the resources?

Governor DUKAKIS. No; I don't think we can.

Mr. ROYBAL. Without the resources you can't do it. In other words, if 202 is discontinued completely, then the States will not be able to do it, and therefore, the senior citizen community of the United States will continue to be homeless.

Governor DUKAKIS. That is going to be the inevitable result of those kinds of policies, Mr. Chairman.

Mr. ROYBAL. This committee has had hearings on the cost of medical care, Medicaid, Medicare, housing, and almost every subject matter that in any way affects the human being, particularly the senior citizen community. I find that no matter which way we go and what we look at, that the senior citizen is usually the one that is taking the rap.

Do you agree with the statement made by the previous witnesses that it will be in the neighborhood of 15 million or more people who would be affected if no further housing is built after 1987?

Governor DUKAKIS. I don't have any information. I don't know whether Secretary Anthony does to confirm that.

Mr. ROYBAL. Secretary, do you have any information as to what that effect will be throughout the nation?

Ms. ANTHONY. I don't have that information, Mr. Chairman, but I believe that the scale of the impact will be of that magnitude.

Mr. ROYBAL. Which means that people would suffer considerably not only in your State, but also in the poorer States throughout the country which may not have the fluency of, let us say, California.

Governor DUKAKIS. Particularly those States, and you have just heard from the Archbishop from Louisiana. As you know, those States where revenues are falling as a result of the drop in oil prices and farm States, mining States, lumber States, States that depend very much on the productive sector, if you will, are going to be hit very, very hard.

Even our State, with the kind of very strong commitment we have at the State level is going to be denied the ability to continue to provide the units which we believe we need and which will be very much valued by elder citizens.

Mr. ROYBAL. I was interested in your statement that the National Governors' Association today unanimously endorsed the establishment of a joint public-private partnership approach to meeting the housing needs of their citizens. I suppose that the National Governors' Association is, of course, made up of Governors from the entire Nation.

Governor DUKAKIS. Yes.

Mr. ROYBAL. At the time that that was being debated and discussed, were you talking about the establishment of this association based on the fact that the President's recommendation might be disapproved, or were you looking at it from the other viewpoint, that you would establish such an association primarily to take care of matters if the President's recommendation was approved?

Governor DUKAKIS. Well, I think it is a combination of both, Mr. Chairman. As you know, the National Governors' Association 2 years ago, on a broad bipartisan basis almost unanimously endorsed a deficit-reduction resolution which had it been supported by the administration would have us well down the road toward a balanced budget.

Unfortunately the administration did not adopt the position that we took, Republicans as well as Democrats, and we are now confronted, as you are, with Gramm-Rudman-Hollings, and the consequences of all of that. Everything we do these days in the National Governors' Association is sensitive and very concerned about what Senator Domenici referred to before us on Sunday as a train wreck or a train heading for a wreck. And we are trying as best we can through the notion of housing partnerships and other things to improvise to learn from each other, to try to create institutions at the State level which to some extent, at least, can cushion that blow.

But I want to emphasize that the success of much of what we are now doing in Massachusetts, like the SHARP Program, something which we planned, and which has demonstrated that mixed-income housing works, that you can have high income and middle income and low income and elderly and some disabled people in the same apartment complex living together, sharing together, and creating a good environment together; that the low-income component of a good deal of that SHARP housing is provided by housing certificates and the continuation at least at current levels of the present Federal commitment.

We have some very good private developers in our State. We have some very good nonprofit community-based developers, but they can't get the cost of a loan down to 25 percent of an elderly person's income simply by wishing it. There has to be some kind of subsidy, and those certificates have provided that subsidy.

So, even with the kinds of innovative things that we have been trying to do, if you pull that out of there, then I don't know as a matter of plain housing economics how you provide——

Mr. ROYBAL. In other words, the section 202 program is indispensable?

Governor DUKAKIS. That is indispensable. Some of these other things are very, very important, and while the Governors are doing their best to try to deal with the situation and the uncertainty that we are facing, because we don't know what is going to happen here, there really is a limit to how much of this we can do on our own.

And once again, Mr. Chairman, I just can't emphasize too much that it seems to me providing good housing for the people of this country is a national goal which should be a shared responsibility. I don't believe it should be just Federal. I think we have done a lot more at the State and local level in the past 2 years than we had before and I think that is as it should be.

The nonprofit sector, as you have just heard, has been extremely important. We have some 60 nonprofit community development corporations in my State, all of which are very much involved with us in building and rehabilitating good housing for people at moderate cost, and that is a tremendous asset that we have.

But unless we deal with this as a nation, and do so in a shared way, we aren't going to do the kinds of things I think should be expected of us.

Mr. ROYBAL. Mr. Bonker.

Mr. **Bonker**. Governor, I am delighted to have you join us today. I am sorry that all of our colleagues aren't to hear what you said. It will definitely be their loss. I also would comment that you have been very modest about your remarks regarding the economic growth in Massachusetts. While that may or may not be a blessing, you have been the moving force behind it, and you deserve much of the credit.

We attempted to meet last year over technology restrictions and were unable to do so, but I trust that technology industries are doing well and help provide funds that are possible for you to pursue your housing objectives in Massachusetts.

If we have several more years of the Reagan administration, we are not going to have any Federal housing programs, as I am sure you know. I hope that while the White House was wining and dining the Governor that you were able to get across some of your concerns to high-ranking White House officials, who seem oblivious to the potential impact of their policy to eliminate many of these domestic programs.

In any case, what you are doing in Massachusetts unwittingly helps their case. Your leadership is so impressive that it more or less confirms what they have been saying. That is, the States are fully capable of taking on many of these programs that otherwise the Federal Government has had responsibility for. The Feds are burdened with large annual budget deficits while many States are running surpluses. So, the obvious question is, why should the Federal Government provide these programs to States who are doing so well.

I must say, I am overwhelmed by what you have done in Massachusetts. You have talked about the housing partnership program, about the home ownership opportunity program, about the SHARP Program of 5,800 units of rental housing. You have also discussed your housing abandonment program, Massachusetts' elderly public housing program which consists of 32,000 units, and finally your congregate housing initiative.

Actually Massachusetts seems to be doing more for its citizens than the Federal Government. I mean, just in terms of the money and the commitment, you are providing more housing in your State than we are. In fact, I think that $700 million that you are spending under the elderly housing program is more than the total Federal commitment of $631 million for section 202 for elderly housing.

I guess my question is pretty obvious. Why should the Federal Government buy these programs when if we have enlightened States like Massachusetts?

I don't see that you have given the Federal Government any credit for these programs. They are all the State's programs?

Governor **Dukakis**. But I pointed out that the SHARP Program, for example, depends to a very substantial extent on housing certificates to make up the 25 percent low income component of that very fine mixed-income housing.

But let me give you some other statistics that I am——

Mr. **Bonker**. Let's go through the programs. Let's take the Elderly Housing program, which is a $700 million program, is that all State money?

Governor **Dukakis**. That is all State money but we have several hundred thousand additional units which are federally financed, but let me give you one or two other statistics, just so I can right the balance a little bit. One-third of our UDAG's this past year went to housing. We had about $50 million in UDAG grants to the State in 1985, and fully one-third of those were housing.

We estimated, Amy check me if I am wrong, that 30 percent of the CDBG money——

Mr. **Bonker**. Is that one-third that is exclusively sponsored by UDAG, or UDAG grants combined with other money?

Governor **Dukakis**. That is with the UDAG money.

Mr. **Bonker**. Well, why should we do it, running these astronomical deficits which are looming over our heads when the States are running surpluses? Is it a matter of who is going to assume the financial responsibility?

Governor **Dukakis**. The short answer is that the States vary enormously.

Mr. **Bonker**. Does that mean we should not provide money to Massachusetts but should provide money to Mississippi?

Governor **Dukakis**. I would say this, that I for one might even get less than some other State, but we would strongly recommend it be apportioned in the way the State economic resources are into the formula. I think with a State like mine with 3-percent unemployment rate, or with a State like Texas, which has had to cut its budget 13 percent in the last few months because revenues drop like a shot, and I think that is as it should be.

What I guess I am troubled about is this notion in this administration's rhetoric that somehow we are in too different worlds here and I thought we were serving the same people, and the goal of good housing ought to be yours as an American citizen whether you live in Mississippi, Montana, or Massachusetts.

That shouldn't mean that the States shouldn't use their initiative, such as lands that may be held by government that may be turned back to go into housing.

Mr. **Bonker**. I don't think it is really a vast separation. It is a division of governmental responsibilities. The Reagan administration sees the Federal role as providing for the national defense, and the State and local role to provide everything else.

Governor **Dukakis**. Let me also add, Mr. Chairman, we would be happy to provide you with research that we have done on the large and growing gap of Federal revenue enforcement in the tax compliance. In 1984 the tax compliance rate was 94 percent.

Mr. **Bonker**. What year was that?

Governor **Dukakis**. 1984. Today it is 71 percent and dropping and you all know what has happened in the IRS in the past 4 or 5 years. The difference is $65 billion a year in revenue. It isn't being collected by the Treasury, $65 billion annually that is not being collected and I am not talking about the underground economy. I am talking about taxes paid on legitimately earned income.

Now, as you know in my State and in New York we have had very strong revenue enforcement, including but not limited to, amnesty which has made it possible for us to enjoy the kind of minimum solvency that we currently do. But every percentage point of nontax compliance in this country means $5 billion to the Federal

Treasury and when you look at that incredible gap, not to mention the basic unfairness of what it means to the 70 percent of the people who are paying the tax, and when you are facing the Gramm-Rudman, which to a very great extent in terms of our goal——

Mr. **Bonker**. Do you have any idea at what taxable level the noncompliance has occurred?

Governor **Dukakis**. I don't know.

Mr. **Bonker**. When it is recorded that 3,000 of this country's millionaires are paying no tax, 40 of the largest corporations are paying no tax——

Governor **Dukakis**. They may be doing it legally, I don't know, but these are the Treasury's figures. This is based on an annual survey of some 2,000 taxpayers. There is an enormous gap and I don't have to tell you how much housing it could help us to build if it was corrected.

Mr. **Bonker**. Governor, I am real impressed with the job you are doing in terms of leadership. The only comments I would make is that when you discuss the success of your housing program, you ought to give the Federal Government some credit. It is important to note how essential it is that we have these Federal programs in place to facilitate your initiative. If we are talking about these programs and don't make any reference to the Federal Government, then we really affirm what the other side has been saying all along.

Governor **Dukakis**. The point is well taken. I was asked to describe what we are doing at the State level and the next time I am asked to do it I will make sure that those Federal resources are shown. Thanks to all of you for your encouragement and commitment to these Federal resources which we have been able to take advantage of and which we hope will remain.

Needless to say, if there is anything you think we can do in Massachusetts to help, I hope you let us know. If we can be helpful on the revenue enforcement side please let us know because we have had 3 years' experience in this area. Revenues in Massachusetts for the first 7 months are up again substantially, and so it is very clear that we have had an impact on compliance and I believe it would be worthwhile for you to look into that.

Mr. **Bonker**. Thank you.

Mr. **Roybal**. I have just one more item to take up with you and that is the question I asked the other witnesses. What would happen to the status of elderly housing if the section 202 program is abolished or if the President's budget was adopted?

Governor **Dukakis**. It will have a devastating impact upon the ability of this Nation to provide good, decent, and affordable housing and will have a devastating effect.

Mr. **Roybal**. Thank you.

The hearing is now adjourned.

[Whereupon, at 3:07 p.m., the subcommittee adjourned subject to the call of the Chair.]

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